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Politics this week

Aug 24th 2006
From The Economist print edition

AFP

Iran gave its long-awaited reply to an offer of political and economic incentives from America, Russia, China, Britain, France and Germany if it agreed to suspend uranium enrichment in accordance with a resolution from the UN Security Council. It said it was ready for "serious talks", but would not stop enrichment by the end-of-August deadline. America's State Department said the reply "fell short". The Security Council will now have to discuss sanctions. See article

A fragile ceasefire more or less held in **Lebanon**, despite various infractions, including an Israeli commando attack to stymie what Israel said was a Hizbullah operation to restock its arsenal. European Union countries continued to argue about sending soldiers to beef up the UN peacekeeping force in Lebanon. See article

Meanwhile, **Israel's** politics fell into turmoil. Army reservists protested against poor military planning and lack of equipment, there were disputes over how to hold an inquiry into the war, and two ministers and the president, Moshe Katsav, came under criminal investigation. Mr Katsav is accused of sexual assault on an employee, but denies the allegations.

Despite more killings and suicide bombings in Baghdad, a British general and an American one both said that sectarian bloodshed in **Iraq** had declined in recent weeks.

Gun battles erupted in **Congo's** capital, Kinshasa**,** after results of the first round in the presidential election. Having won 45% of the vote, the incumbent, Joseph Kabila, is set to face one of his vice-presidents, Jean-Pierre Bemba, in a run-off in October. See article

Two African Union peacekeepers from Rwanda were killed when their convoy was attacked by unknown assailants in Sudan's **Darfur** region.

The **South African** government became embroiled in another controversy over its AIDS policies. At the end of an international AIDS conference in Toronto, the UN envoy responsible for tackling the disease in Africa accused the government of supporting theories worthy of a "lunatic fringe" and of being "obtuse, dilatory and negligent" in distributing anti-retroviral drugs. See article

Welcome, up to a point

It emerged that the British government is likely to put restrictions on the free entry of workers from **Bulgaria and Romania** when those countries join the European Union next year. In May 2004 Britain took the moral high ground when it was one of only three member states to let in workers from the eight new central European members. See article

German police arrested a suspected terrorist, a Lebanese man who, along with an accomplice, was said to have placed suitcases containing bombs on German trains in late July. A second suspect was arrested in Lebanon. See article

On her return from holiday, the German chancellor, **Angela Merkel**, faced demands to turn leftwards and spend more time on social policy. Ms Merkel, whose popularity has fallen sharply in recent weeks, rejected the calls.

A **Russian airliner** filled with holiday-makers crashed and burst into flames in Ukraine, killing all 170

people aboard. Officials believe it may have been struck by lightning. A spate of accidents has raised fresh concerns about the safety of Russian airlines.

Brother in arms

In his first public comments since temporarily taking over the leadership of **Cuba**, Raúl Castro said he had mobilised the country's army after the announcement that his brother Fidel was ill. This was to prevent an invasion by the United States, he said.

A block of free-trading countries on South America's Pacific coast took firmer shape. Chile, which has said it will rejoin the four-country **Andean Community**, signed a trade agreement with Peru. Venezuela's Hugo Chávez recently withdrew his country from the group because of other members' trade deals with the United States. See article

A strike in Chile's Escondida, the world's biggest copper mine, continued into a third week, keeping **copper** prices extremely high. The union rejected two pay offers by the mine's operators.

Palin significance

In the Republican primary for the governorship of **Alaska**, the incumbent, Frank Murkowski, who was the state's senator for 22 years, lost to Sarah Palin, a former mayor. Ms Palin won 51% of the vote and will face the Democrat Tony Knowles in November. See article

John Mark Karr was arrested in Thailand in connection with the killing ten years ago of JonBenet Ramsey, a six-year-old beauty queen. He agreed to be extradited to Colorado to face murder charges. JonBenet's parents had previously been suspected of involvement in her death. See article

Getty Images

A year after **Hurricane Katrina** wrecked New Orleans, George Bush gave warning that it would take “a long time” to rebuild the city. Meanwhile, Democratic lawmakers criticised the reconstruction effort, saying that thousands of families were still without emergency housing and that corruption and incompetence were rife. See article

Far from home

Thai police arrested 159 **North Koreans**, the largest group of suspected illegal migrants the country has yet seen.

Japan's foreign minister, Taro Aso, joined the race to succeed Junichiro Koizumi, who stands down next month. The favourite to win, Shinzo Abe, the cabinet secretary, is expected to declare his candidacy soon.

Close to 100 Taliban militants were killed by foreign forces in clashes in **Afghanistan's** southern provinces of Helmand and Kandahar, which are experiencing their bloodiest fighting since the Taliban were overthrown in 2001.

Reuters

Two **Indian** ministers resigned as their small regional party from the state of Andhra Pradesh left the unwieldy coalition government. They said the government had not made good on earlier promises to create a separate state in Andhra Pradesh's northern Telangana region.

International peace monitors in **Sri Lanka** withdrew to the capital, Colombo, because fighting in the north-east is making their work too dangerous. The mission looks set to be crippled anyway by a demand from the rebel Tamil Tigers that all monitors from EU countries leave. The EU has declared the Tigers to be a terrorist outfit, but has said it will comply with the demand.

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Business this week

Aug 24th 2006
From The Economist print edition

The pace of existing **home sales** in America fell by 4.1% in July, to its lowest level since January 2004. The drop deepened worries about the overall economy. Increases in house prices also slowed. The median price for existing homes was $230,000 in July, up 0.9% from a year earlier and the slowest annual gain in more than a decade. Shares fell on the news, with housebuilders particularly hard hit. See article

An American central-bank official suggested that **interest rates** may rise further. Michael Moskow, president of the Federal Reserve Bank of Chicago, said further increases may be needed to slow inflation. There have been 17 increases in interest rates in the past two years.

BHP Billiton, the world's largest mining company, said attributable profit in the year ended June 30th rose 63%, to $10.45 billion. Although the firm plans a $3 billion share buyback, its shares fell on its concerns about rising wages and equipment costs. The results, spurred by strong prices for metals, come amid a strike at the Escondida copper mine in Chile, in which BHP is the biggest shareholder.

Mergers in Europe

Banca Intesa and **Sanpaolo IMI**, Italy's second- and third-largest banks, said they had proposed talks on a possible merger. Such a deal, if completed, would create a stronger rival to UniCredit, Italy's largest bank. Intesa and Sanpaolo said they would hold board meetings by the weekend to discuss a merger. Before the announcements, their market capitalisations were *euro*28.1 billion ($35.9 billion) and *euro*23.3 billion, respectively. The Bank of Italy has encouraged consolidation in the banking sector.

Applications for **corporate mergers** in Europe are being filed at a record rate, European Commission statistics show. If the pace continues, merger filings this year will exceed those in 2000, the highest total to date.

New worries were raised about the proposed merger of **Gaz de France** and **Suez**. European officials are said to have concerns about their dominant positions in the gas and electricity markets of France and Belgium. See article

VNU, a Dutch media company bought earlier this year by a group of private-equity firms, recruited David Calhoun as its chairman and chief executive. The veteran of General Electric was thought to have been offered compensation of at least $100m, which is double what he received at GE.

Prosecutors struck a deal with **Frank Quattrone**, a once-high-flying banker in Silicon Valley, to drop charges against him. Mr Quattrone, who has denied wrongdoing and will not face a fine, said he would resume his career as soon as possible.

Felix Rohatyn, a prominent figure in the financial world and a former American ambassador to France, will join Lehman Brothers as a senior adviser to the chairman and chief executive. See article

Oil workers in Nigeria threatened to pull out of the Niger Delta because they fear for their safety, after a string of kidnappings and attacks. A union vote has been called for August 30th. Disruptions in **oil supply** from Nigeria have helped to push up oil prices.

Apple Computer will pay Creative Technology, a Singapore firm, $100m to settle a patent dispute over the iPod digital music-player.

China interest rate

China raised a benchmark interest rate in an effort to slow a boom in credit and investment. The People's Bank of China raised banks' one-year deposit and lending rates by 0.27 percentage points, the central bank's second such move in the past four months.

Weyerhaeuser will merge its copier-paper business with Domtar, a Canadian firm. The $3.3 billion transaction is the latest restructuring in the paper industry. Under the deal, Weyerhaeuser will receive $1.35 billion in cash.

Net profit at **Nestlé**, the world's biggest food company, rose by 11.4% in the first half, to SFr4.2 billion ($3.3 billion) on sales of SFr47 billion. The result, which surpassed many analysts' predictions, was partly achieved through hedging and price increases to offset higher costs in energy and commodity inputs.

Burgher blues

Confidence among **German investors** and financial analysts fell to a five-year low in August. A survey by ZEW, an economic-research centre, showed confidence at the lowest point since June 2001 on worries about higher taxes and higher borrowing costs. But a survey of business sentiment by Ifo, a research institute, showed that confidence did not fall as much as expected. The euro rose on the news.

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The future of newspapers

Who killed the newspaper?

Aug 24th 2006
From The Economist print edition

The most useful bit of the media is disappearing. A cause for concern, but not for panic

"A GOOD newspaper, I suppose, is a nation talking to itself," mused Arthur Miller in 1961. A decade later, two reporters from the *Washington Post* wrote a series of articles that brought down President Nixon and the status of print journalism soared. At their best, newspapers hold governments and companies to account. They usually set the news agenda for the rest of the media. But in the rich world newspapers are now an endangered species. The business of selling words to readers and selling readers to advertisers, which has sustained their role in society, is falling apart (see article).

Of all the "old" media, newspapers have the most to lose from the internet. Circulation has been falling in America, western Europe, Latin America, Australia and New Zealand for decades (elsewhere, sales are rising). But in the past few years the web has hastened the decline. In his book "The Vanishing Newspaper", Philip Meyer calculates that the first quarter of 2043 will be the moment when newsprint dies in America as the last exhausted reader tosses aside the last crumpled edition. That sort of extrapolation would have produced a harrumph from a Beaverbrook or a Hearst, but even the most cynical news baron could not dismiss the way that ever more young people are getting their news online. Britons aged between 15 and 24 say they spend almost 30% less time reading national newspapers once they start using the web.

Up to a podcast, Lord Copper?

Advertising is following readers out of the door. The rush is almost unseemly, largely because the internet is a seductive medium that supposedly matches buyers with sellers and proves to advertisers that their money is well spent. Classified ads, in particular, are quickly shifting online. Rupert Murdoch, the Beaverbrook of our age, once described them as the industry's rivers of gold—but, as he said last year, "Sometimes rivers dry up." In Switzerland and the Netherlands newspapers have lost half their classified advertising to the internet.

Newspapers have not yet started to shut down in large numbers, but it is only a matter of time. Over the next few decades half the rich world's general papers may fold. Jobs are already disappearing. According to the Newspaper Association of America, the number of people employed in the industry fell by 18% between 1990 and 2004. Tumbling shares of listed newspaper firms have prompted fury from investors.

In 2005 a group of shareholders in Knight Ridder, the owner of several big American dailies, got the firm to sell its papers and thus end a 114-year history. This year Morgan Stanley, an investment bank, attacked the New York Times Company, the most august journalistic institution of all, because its share price had fallen by nearly half in four years.

Having ignored reality for years, newspapers are at last doing something. In order to cut costs, they are already spending less on journalism. Many are also trying to attract younger readers by shifting the mix of their stories towards entertainment, lifestyle and subjects that may seem more relevant to people's daily lives than international affairs and politics are. They are trying to create new businesses on- and offline. And they are investing in free daily papers, which do not use up any of their meagre editorial resources on uncovering political corruption or corporate fraud. So far, this fit of activity looks unlikely to save many of them. Even if it does, it bodes ill for the public role of the Fourth Estate.

Getting away with murder

In future, as newspapers fade and change, will politicians therefore burgle their opponents' offices with impunity, and corporate villains whoop as they trample over their victims? Journalism schools and think-tanks, especially in America, are worried about the effect of a crumbling Fourth Estate. Are today's news organisations “up to the task of sustaining the informed citizenry on which democracy depends?” asked a recent report about newspapers from the Carnegie Corporation of New York, a charitable research foundation.

Nobody should relish the demise of once-great titles. But the decline of newspapers will not be as harmful to society as some fear. Democracy, remember, has already survived the huge television-led decline in circulation since the 1950s. It has survived as readers have shunned papers and papers have shunned what was in stuffier times thought of as serious news. And it will surely survive the decline to come.

That is partly because a few titles that invest in the kind of investigative stories which often benefit society the most are in a good position to survive, as long as their owners do a competent job of adjusting to changing circumstances. Publications like the *New York Times* and the *Wall Street Journal* should be able to put up the price of their journalism to compensate for advertising revenues lost to the internet—especially as they cater to a more global readership. As with many industries, it is those in the middle—neither highbrow, nor entertainingly populist—that are likeliest to fall by the wayside.

The usefulness of the press goes much wider than investigating abuses or even spreading general news; it lies in holding governments to account—trying them in the court of public opinion. The internet has expanded this court. Anyone looking for information has never been better equipped. People no longer have to trust a handful of national papers or, worse, their local city paper. News-aggregation sites such as Google News draw together sources from around the world. The website of Britain's *Guardian* now has nearly half as many readers in America as it does at home.

In addition, a new force of “citizen” journalists and bloggers is itching to hold politicians to account. The web has opened the closed world of professional editors and reporters to anyone with a keyboard and an internet connection. Several companies have been chastened by amateur postings—of flames erupting from Dell's laptops or of cable-TV repairmen asleep on the sofa. Each blogger is capable of bias and slander, but, taken as a group, bloggers offer the searcher after truth boundless material to chew over. Of course, the internet panders to closed minds; but so has much of the press.

For hard-news reporting—as opposed to comment—the results of net journalism have admittedly been limited. Most bloggers operate from their armchairs, not the frontline, and citizen journalists tend to stick to local matters. But it is still early days. New online models will spring up as papers retreat. One non-profit group, NewAssignment.Net, plans to combine the work of amateurs and professionals to produce investigative stories on the internet. Aptly, $10,000 of cash for the project has come from Craig Newmark, of Craigslist, a group of free classified-advertisement websites that has probably done more than anything to destroy newspapers' income.

In future, argues Carnegie, some high-quality journalism will also be backed by non-profit organisations. Already, a few respected news organisations sustain themselves that way—including the *Guardian*, the *Christian Science Monitor* and National Public Radio. An elite group of serious newspapers available everywhere online, independent journalism backed by charities, thousands of fired-up bloggers and well-informed citizen journalists: there is every sign that Arthur Miller's national conversation will be louder

than ever.

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Iran's nuclear ambitions

When the spinning has to stop

Aug 24th 2006
From The Economist print edition

If Iran won't end enrichment, sanctions should follow

Reuters

EVEN after the ferocious fighting performance of its Hizbullah ally against Israel, Iran is unloved in much of the Middle East. But its influence is on the rise. And it seems determined that the influence will in future be nuclear-powered. While offering America, Britain, France, Germany, Russia and China “serious talks”—the six were this week studying its 21-page reply to their June proposals for ending the nuclear stand-off—Iran blows raspberry after raspberry at the International Atomic Energy Agency (IAEA), which serves as the United Nations nuclear guardian, and at the UN Security Council.

The council demanded last month that Iran should stop its uranium enrichment and work related to plutonium production by August 31st, or face sanctions. Iran has refused. But it has a suggestion: if it is ready for talks, why not put off sanctions and see what talks might achieve, even if some enrichment work continues? Iran is hoping that Russia and China, which have protected it in the past, will argue for the council's end-of-month deadline to be postponed (see article). The council should resist this pitch. It was right to draw the line against enrichment, and should stick to its timetable.

Keeping the lights on, or making a bomb

Iran dismisses last month's UN resolution as “illegal”, claiming that it has an “inalienable right” under the Nuclear Non-Proliferation Treaty (NPT) to peaceful nuclear technology—and keeping the lights on, it claims, is all it intends. The effort to prevent it making uranium and plutonium, it insists, is just a dastardly Western plot to block developing countries' access to advanced technology.

The facts of the case are rather different. Although both materials can be used in generating civilian nuclear power, they can also be abused for making bombs. The NPT lets signatories enjoy the benefits of civilian nuclear technology, but only provided they observe its ban on seeking nuclear weapons and put their nuclear activities under IAEA safeguards. For 18 years until 2003 Iran lied to inspectors in order to cover up illicit nuclear experiments. Some fibs have continued. Despite more than three years of investigation, inspectors believe Iran is still withholding crucial information about how much enrichment equipment it bought on the nuclear black market and what it has done with it. The IAEA's 35-nation board eventually had no choice but to find Iran in non-compliance with its safeguards agreement and to send its case to the Security Council, hoping for UN backing in winkling out the facts.

Iran rejected the council's first polite request to suspend its troubling enrichment activities until the inspectors' work was completed. So last month the council voted to demand that Iran comply, threatening sanctions if it refused. That resolution had the backing not just of America and its European allies on the council, but of veto-capable Russia and China too.

Drawing the line

And the reason so many countries appear to be “ganging up” on Iran? It is not just its years of safeguards-abuse, but the nature of some of the experiments it concealed, which have little point except as part of a bomb-building effort. There have also been indications of direct military involvement in Iran's nuclear dabbling, and of design work on missile cones capable of carrying a nuclear warhead. The best way for Iran to refute these allegations and build confidence in its professed peaceful intent would be to suspend its enrichment work and co-operate as fully as possible with the IAEA's inspectors. Instead, it has done the opposite: as their questions have become more pointed, Iran has redoubled its enrichment efforts and restricted the inspectors' work.

The demand for a suspension of enrichment work is not an attempt at the nuclear mugging of Iran. The proposals put to Iran in June by the Americans, Europeans, Russians and Chinese include, along with trade and political talks, the offer to co-operate in other advanced nuclear technologies, including building reactors for power generation, and assurances of fuel supplies to keep them going—enabling Iran to gain all the benefits of civilian nuclear technology at far less cost than enriching on regardless. Nor does the package rule out a return to enrichment by Iran some day, though only when the IAEA and everyone else can be confident it really is keeping its promises not to pursue military nuclear work.

Given Iran's past nuclear record and the suspicions about its future intentions, the condition for further talks on the incentives on offer has to be an end to enrichment now. Letting Iran spin out talks, while it continues to learn how to spin centrifuges that could one day produce the fissile material for a bomb, would be folly. If Iran goes on enriching beyond the council's deadline, sanctions must follow.

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Lebanon

Hold your breath

Aug 24th 2006
From The Economist print edition

Ways to make the fragile peace take hold

AFP

AT LEAST the fighting in Lebanon is over. With some 1,500 dead, most of them civilians, both countries' people crave and deserve some respite. But the peace is fragile and fighting could easily resume. Moreover, despite the passage of UN Security Council Resolution 1701, which calls for Israel's withdrawal and the disarmament of Hizbullah, neither of those aims is likely to be achieved soon. Indeed, after a month of bloodshed and devastation, it is unclear what in essence has changed since the latest round of conflict erupted, except that Hizbullah looks stronger and Israel weaker and less loved around much of the world.

The most pressing need is for a beefed-up UN peacekeeping force to get into the buffer zone as soon as possible. The UN's planners are dismayed by the bizarre behaviour of France, which co-drafted resolution 1701 and looked set to head a UN force, but which then said it could not send more than a token contingent. The baton has passed to the less experienced Italians, though the French could change their minds (see article). The sooner the Israelis leave the better, but they will not do so if the south remains a security vacuum into which Hizbullah can reinsert itself while restocking its store of rockets.

Even if a solid UN force of 15,000 or so is rustled up, its task will be hard. Though the UN resolution says it must help Lebanon's feeble regular army to ensure that no other Lebanese force (ie, Hizbullah) carries arms, no one expects the UN to disarm the Islamist militia by force. It should, however, make it harder for Hizbullah to rearm, by watching over Lebanon's border with Syria and its ports and airports. A UN force, however big, will not stop Hizbullah or Israel from fighting each other again, if either side is bent on doing so. By getting in the way, it can dissuade them up to a point. That is all.

However, together with the UN, outsiders can bring some useful diplomacy to bear. First, bolster Lebanon's frail but well-intentioned government. Most Lebanese want Hizbullah to lose its status as a state within a state. But it is a necessarily gradual, delicate process, depending on Lebanon recreating itself as a prosperous, independent, multi-sectarian country.

The problem with Syria

Second, Syria, a generally malign influence, must nonetheless be brought into the diplomatic equation by means of sticks and carrots. Its threat to close its Lebanon border if peacekeepers are deployed there should be ignored. If it continues to arm Hizbullah against the clear edict of resolution 1701, it should

face punitive UN sanctions. But there is a strong case for trying to bring Syria back into regional diplomacy, including discussion of the Israeli-occupied Golan heights. It would also help if Israel, for once eschewing its fear of “rewarding terror”, agreed to discuss terms for handing back—or at least to the UN—the patch of border territory known as the Shebaa Farms, which the UN says is Syrian but is claimed by Lebanon.

Third, however much this sounds like a broken gramophone record, there will be no secure peace in Lebanon until there is a peace between Israel and the Palestinians. This would rob Hizbullah and other like-minded groups of much of their raison d'être. It is one lesson that the latest war has brought home not only to Israel but also to American allies such as Egypt, Jordan and Saudi Arabia. Shaken by the rise of Hizbullah and the rewards gleaned by its Iranian mentor, they are talking about a new peace initiative. All power to them.

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Development

Of property and poverty

Aug 24th 2006
From The Economist print edition

Land titling is a good thing, but it does not in itself create capitalism

Panos

ALMOST exactly 20 years ago, in November 1986, a Peruvian economist published an influential book. In “The Other Path”, Hernando de Soto issued a clarion call for popular capitalism. He saw in his country's “informal economy” of backstreet workshops and squatter settlements an “insurrection” against the unfair legal system of a corporate state. Its failings were of commission—absurd and costly regulations that discouraged businesses from seeking legal registration; and of omission—the poor lacked legal title to their homes or land, and therefore could not use them as collateral to obtain credit. Millions of Peruvians were condemned to unproductive lives of insecurity and poverty. In a later work, “The Mystery of Capital”, Mr de Soto used this approach to explain the broader failure of capitalism to bring development across many parts of the world.

Nobody had ever disputed that property rights matter for investment: you are more likely to put money in something if you are sure you own it. Mr de Soto's insight—that title frees up credit, turning dead capital into live capital—was widely hailed (by this newspaper among others). It focused welcome attention on the need to cut the red tape that often strangles business in developing countries, and it prompted governments in countries as diverse as Egypt and the Philippines to undertake large-scale property-titling campaigns. Mr de Soto argues that it is above all the lack of title that explains why poor people have been unable to turn their assets into capital.

It turns out, however, that securing title doesn't necessarily lead to this piece of alchemy. Recent studies in Argentina and Peru (see article) have found that title indeed encourages the poor to invest in improving their houses. They also spend longer working outside the house, because they need to devote less time to seeing off intruders; and they are less likely to put their children to work. For all these reasons, property titles matter. But, the studies found, poor people with title are no more likely to obtain a loan from a commercial bank.

There are two sets of reasons for this. Informal entrepreneurs will tell you that their property is too valuable to put at risk as collateral. By renting a room or putting up relatives, the home may provide income or services, as well as shelter. Quite apart from the risk of a failing business, the poor face the threat of natural disaster or abrupt political change, for example, which makes them reluctant to take on debt. On the other hand, commercial banks in many developing countries are slow to lend to the poor. They worry that judges will fail to seize the homes of poor defaulters. It has often been left to non-profit institutions to provide micro-credit.

Some of this can be fixed through, for example, more competition among banks or the broader reform of legal systems (which Mr de Soto has also campaigned for and is now helping the UN promote through a new commission). The wider point is that, although land titling is certainly a good thing, it does not provide a single theory of development, as many *Sotistas* have in the past implied. Poverty, alas, is itself a barrier to risk-taking and enterprise.

Capitalism is the only system that can lift billions out of poverty. But no recipe can achieve this overnight. History suggests that as well as property rights and a decent legal system, it requires sound economic policies, an educated workforce and political arrangements capable of regulating conflicts and minimising the risk to investment. Then again, if development were easy, everyone would have already developed.

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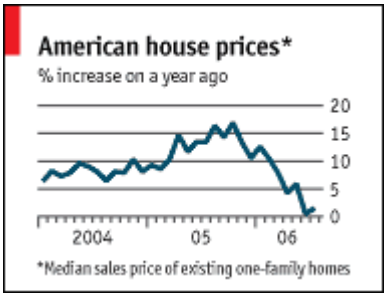
America's house-price bubble

What's that hissing sound?

Aug 24th 2006
From The Economist print edition

A slowing, perhaps even falling, housing market spells trouble for the American economy



IF YOU could watch just one indicator to gauge America's economic prospects over the next few years you should pick house prices. A year ago most economists thought that average prices were unlikely to fall across the nation. Now many of them have begun to worry about the consequences of falling prices for America's economy. Figures out this week from the National Association of Realtors show that average home prices barely rose over the past year, compared with annual growth of around 15% in mid-2005. In some parts of the country, prices are already falling (see article). Adjusted for inflation, the average home is worth less than it was a year ago.

The housing boom has been the main engine of America's economic growth in recent years. Indeed, it is the main reason why the American economy held up better than expected after the stockmarket bubble burst at the start of the decade. Since 2000 the real wages of most American workers have barely budged, yet surging house prices have allowed consumers to keep spending. Over the past five years the total value of American homes has increased by more than $9 trillion, to $22 trillion. These gains helped to offset both the slide in share prices and feeble wage growth.

This is the biggest bubble in American history: in real terms home prices have risen at least three times as much as in any previous housing boom. In the past average nationwide house prices have experienced year-on-year declines for the odd, isolated month, but they have not fallen on a sustained basis since the 1930s. However, most states have seen prices drop at some time in the past three decades. Since the housing market is looking bubbly in more states than ever before, prices could simultaneously fall in enough places to give America its first nationwide price decline since the Great Depression.

On the surface America's housing boom looks more modest than booms elsewhere. Since 1997 average prices have doubled, compared with a gain of almost 180% in Britain. But the economic consequences of a bust could be more severe, because the economy has become so addicted to rising prices.

The boom has lifted the economy in three ways: it has boosted residential construction; it has made people feel wealthier and so encouraged them to spend more; and it has allowed home-owners to use their property as a gigantic cash machine, taking out money by borrowing against their capital gains. Merrill Lynch estimates that the three together accounted for more than half of America's total GDP growth last year. Counting construction, finance and estate agency, the housing boom has also been responsible for one-third of all jobs created since 2001. If house-price rises level off, GDP growth could dip below 2% in 2007. If prices fall, expect a steeper slowdown.

Ben to the rescue?

If house prices do slide, the Federal Reserve will probably slash interest rates so as to save the economy from recession. But the Fed's ability to do this would be limited if inflationary pressures remain strong. And it would surely be wrong for the Fed to support the property market when a slowdown in spending is part of the rebalancing America needs to increase its saving rate. The Fed saw off a fall in spending at the start of this decade after share prices tumbled. To do the same again could damage the long-term health of the economy.

The tech bubble left behind a modern capital stock that continues to yield productivity gains. In contrast, the investment stimulated by a property boom does little to boost long-term growth. Expensive houses merely redistribute wealth to home-owners from non-home-owners. Worse still, the boom has diverted resources away from productive sectors and caused households to save less, exacerbating America's economic imbalances. It is surely better for Americans to start saving in the old-fashioned way by spending less of their income rather than relying on rising asset prices. The party has been fun; but it has to end.

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On Joe Lieberman, Israel and Palestine, Kazakhstan, Hong Kong, women (and men)

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Anatomy of defeat

SIR – It was not only anti-war lefties and doves that gravitated away from Joe Lieberman in Connecticut's Democratic primary but also hawkish "Joe Biden" Democrats such as myself ("An anti-war centre begins to hold", August 12th). I did admire Mr Lieberman for a long time, and he is by no means the only Democrat to think the Iraq war is the right course of action to take. However, his unapologetic support for George Bush's conduct of the war and the administration's violation of civil liberties and disregard for America's tradition in international justice (coupled with the fact that he buys into the Republican mantra that criticism of the government is unpatriotic) were just too much for most Democrats. Mr Lieberman needed to be put in check.

Michael Williams
Head, Transatlantic Programme,
Royal United Services Institute
London

Breaking the impasse

SIR – Your prescription for a solution to America's foreign policy problems in the Middle East asks the United States to put pressure on both Israel and the Palestinians to achieve peace ("Lost in the Middle East", August 12th). The last time America tried this it came up with a comprehensive peace plan that was accepted by Israel and rejected by the Palestinians. Since then, Israel has withdrawn from Palestinian territories and elected a coalition government committed to further withdrawals. Meanwhile, the Palestinians have elected a government committed to destroying Israel. It seems that one party needs more pushing than the other, but if the Palestinians do not want a deal there will not be one. America needs European and Arab states to join it, seriously for once, in this effort.

Alex Pustilnik
New York

It's alright in Almaty

SIR – You highlighted the plight of the inhabitants of illegal settlements in Almaty ("The revolt in Almaty", August 5th). The city's mayor faces a dilemma: on the one hand, property rights and the rule of law are a cornerstone of any free society, including Kazakhstan. On the other, the city authorities have a moral duty to provide, whether through public or private means, sufficient and adequate housing for the genuinely distressed inhabitants of the settlements. But this cannot be achieved overnight and the authorities are developing and publicly discussing plans to this end. The problem is not easy to resolve and it was therefore unhelpful that your article played the "ethnic card" with respect to the city's current and previous mayors. Ethnicity has nothing to do with this issue, rather it is about the growing pains of a fast-developing economy in a society that is in transition.

Erlan Idrissov
Ambassador for Kazakhstan
London

Hong Kong gardens

SIR – You pointed out the desensitising nature of Hong Kong living ("Hard rain", August 5th). One way to make Hong Kong more bearable is counterintuitive: build higher. Relaxing the maximum height restrictions would allow more green areas at street level. Alas, the city's laissez-faire tradition will be used as an excuse to do nothing.

Martin Lodge
Hong Kong

SIR – Thanks for an entertaining article on the objects that can come flying down on pedestrians from buildings in Hong Kong. My favourite "from the skies" memory is of a letter that appeared in a Hong Kong newspaper: "I was walking through Wan Chai when some clot shat on me."

Wes Pedersen
Chevy Chase, Maryland

She who must be obeyed

SIR – Women may have benefited from the rise of technology and globalisation and the importance of emotional intelligence, empathy and communication in modern professional careers ("How women won the sex war", August 5th). But surely *The Economist* would wish to give some credit to Western liberal democracy for the levelling of gender in public life. On this point, the most notable exponent at Harvard is not Larry Summers but Harvey Mansfield, long of the government department, who argues in his book, "Manliness", that: "the entire enterprise of modernity...could be understood as a project to keep manliness unemployed. The goal of modern liberalism was the rational state, a state that completed the long-standing attempt at the rational control of nature and human life that began with Machiavelli and culminated with Hegel." Who needs Gary Cooper when you've got the Department of Homeland Security?

Paul Nielsen
Stratford-upon-Avon, Warwickshire

SIR – It might interest you to know that not a single serious study has ever been able to demonstrate a link between "emotional intelligence" and leadership effectiveness. The most robust and consistent single predictor of leadership effectiveness is, simply, intelligence. Emotional intelligence sells well, but scientific evidence supporting it is almost as solid as that supporting the effectiveness of homeopathy.

Erkko Autio
Professor, department of management
HEC Lausanne
Lausanne, Switzerland

SIR – A recent survey by an academic at Georgia Institute of Technology asked female scientists in tenure track positions what the most significant issue was that they faced. The overwhelming answer was juggling family and career. Developing research questions, managing students, supervising researchers, balancing budgets, filing reports and making deadlines were all of trivial concern compared with planning child care. Are these female PhDs too incompetent to find a solution? Or are they the ones primarily responsible for ensuring that their children are properly looked after?

Ann Gallagher
Bethesda, Maryland

SIR – Only a man could fail to mention the real advantages that men have over women: an ambition for success, even at the cost of their own health; and a parasitic ability to utilise the domestic and child-care labour of their women without feeling guilt. Forget about empathy and emotional intelligence—they just get women sidelined into personnel departments. The only way to attain real power is really, really to want it and not to care about the cost.

Hilary Potts
London

SIR – Or is it madam? As a male engineer, I read your thoughts on gender differences with new-found

resolve. At work today, I had ample time to contemplate my impending obsolescence after switching on my computer so that it could set about the passé task of designing aircraft. In the past it was slide rules and T-squares that did this work, but the tremendous amount of muscle power needed to wield these instruments saved me from redundancy. Clearly, what I need to do to get ahead is to work on such social skills as going behind people's backs, staying angry for long periods of time and spreading bitchy rumours—teamwork and technical skills be damned.

Paul Gush
Madison, Alabama

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Air power

An enduring illusion

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From The Economist print edition

AP

Israel hoped that air power would avoid the need for a ground war against Hizbullah. It was not the first to be beguiled by bombs

VICTORY is not a matter of seizing territory, Dan Halutz once explained. It is a matter of "consciousness". And air power, continued Israel's chief of staff, affects the adversary's consciousness significantly. Indeed, the very concept of the land battle is "anachronistic". Lieut-General Halutz, an air-force man, is said to have persuaded Israel's militarily inexperienced prime minister, Ehud Olmert, that the task of destroying Hizbullah in Lebanon was the perfect job for aircraft.

It did not quite work out that way. Yet the seductive idea that air power can provide swift victory with light casualties has been around almost as long as the aeroplane itself.

The belief that a few bombs could spare all the bloody butcher's bill of infantry fighting proved especially appealing to many of the military men—and politicians—who had witnessed the horrors of the trenches in the first world war. Even if it meant inflicting civilian casualties, the prospect of a short, decisive war waged from the safety of the skies was far preferable to the spectacle of "morons volunteering to get hung in the wire and shot in the stomach in the mud of Flanders," argued Arthur Harris, an airman who rose to become head of British bomber command in the second world war, earning himself the name of "Bomber" Harris for his relentless obliteration of German cities.

Airmen like Harris argued in the 1920s that armies could fight only other armies, whereas aircraft could strike right to the heart of the enemy's territory, crippling its ability and, more important, its will to wage war. Success, it was claimed, would come mostly through influencing the psychology of the enemy. The first chief of Britain's Royal Air Force, Hugh Trenchard, repeatedly asserted that the "moral effect" of bombing "stands in a proportion of 20 to one" to any physical destruction it might cause. Trenchard once even said that not bombing a town could be as effective as bombing it: "The anxiety as to whether an attack is likely to take place is probably just as demoralising as the attack itself."

Although it was the potential of air power in large wars that galvanised such thinking, airmen were also quick to argue that aircraft could be equally potent in small wars against irregular or guerrilla forces. An early opportunity to put this to the test presented itself in 1919 when the Emir of Afghanistan declared *jihad* against Britain's forces in the North-West Frontier Province. The RAF shipped a single Handley Page biplane bomber to Karachi. It flew over Kabul and dropped four 112lb bombs and 16 20-pounders. The emir sued for peace shortly thereafter.

The political capital and prestige which the RAF reaped from the incident were enormous. Basil Liddell Hart, a military writer, declared that “Napoleon's presence was said to be worth an army corps, but this aeroplane seems to have achieved more than 60,000 men did.”

The RAF repeated its triumph to much éclat the next year. This time the target was Mohammed bin Abdullah Hassan, the “Mad Mullah” of Somaliland. The mullah, a precocious Muslim fanatic, had been a thorn in the side of the British for decades. He had adopted a particularly puritanical form of Islam after a pilgrimage to Mecca, which inspired him on his return home in 1895 to emulate the Mahdi who had defied the British in Sudan. The British army then sent four expeditions to Somaliland to try to deal with the mullah, the last one involving 15,000 troops. Each time the mullah regrouped. In 1909 his men, waging a *jihad* against local tribesmen who had accepted British rule, slaughtered a third of the territory's inhabitants.

When the War Office balked at repeating the effort yet again, the war minister, Winston Churchill, proposed to have the RAF do it. Six small aircraft were ferried to East Africa on warships, the mullah's fort was bombed for two days, and a month later it was all over. Churchill crowed in Parliament that the previous land expedition had cost the Treasury £6m—about £120m ($220m) in today's money; the RAF had done the job for £77,000.

But there were hints even amid the glee that the truth was murkier. The mullah was never captured. He and 700 riflemen slipped out of the country only after being pursued by ground forces, whose commander dismissed the airmen's claims of victory as “something of a hoax”. The bombing, he said, had actually made his work harder by dispersing the enemy.

EPA

Ceiling lowered, consciousness raised

Something approaching a mystique, though, soon began to surround the claims of the airmen. When, in 1922, the RAF was given the job of maintaining British authority in Iraq by similar means—by then the formal name had become air control or air policing—the airmen insisted that only they were qualified to judge just when and where to strike to achieve the exact psychological effect required to bring insurgents to heel. The local British army commander sarcastically described the RAF “appearing from God knows where, dropping their bombs on God knows what, and going off again God knows where.” He had a point. Although the RAF claimed it could hit the house of a particular sheikh in a particular village, the airmen often failed to get even half their bombs to land within the village at all.

But the saving in money and lives of troops swept aside most criticism. To the objection that little logic seemed to lie behind their choice of targets, the air commanders merely insisted that their real target was a concept—enemy morale and will—rather than any particular physical object. That proved to be a remarkably resilient theme over the decades. “Bomber” Harris, more honest than many of the Allied air commanders of the second world war when it came to acknowledging the imprecision of the bombing technology of the day, conceded that it was not possible accurately to destroy from the air any targets smaller than a few square miles. For that reason, he argued, the right targets to hit were the only things that were bigger—ie, entire cities. This, he insisted, would win the war.

The possibility that air power would make a ground invasion of France unnecessary tantalised some American politicians right up to the Normandy landings. Harris, too, continued to press his case, even during the final planning for D-day. “Harris told us how well he might have won the war had it not been for the handicap imposed by the existence of the other two services,” commented General Alan Brooke, an army compatriot, after one pre-invasion conference of top commanders.

Similarly, 20 years on, when some of Lyndon Johnson's advisers objected that bombing North Vietnam's

factories and rail lines would not do much harm to an agrarian country in which industry accounted for only 12% of its minuscule GNP, America's air-force chiefs argued that since its industrial sector was so small, the country was that much more dependent on it, and would suffer all the more if it were destroyed. In fact, the North Vietnamese responded to the bombing of their oil tanks and railways by dispersing fuel across the country in small drums and hauling supplies around on bicycles. But zapping railways, factories and oil tanks was something the air force knew how to do.

By that time bombing, whether effective or not, seemed much more attractive than sending in more troops. As America's ground forces in Vietnam found themselves increasingly impotent against an elusive and resourceful foe, the military commanders proposed endless variations on the same bombing strategy that had so far failed. Johnson one day dressed down the army chief of staff in front of his underlings: “Bomb, bomb, bomb, that's all you know. Well, I want to know why there's nothing else. You're not giving me any ideas for this damn little *pissant* country. Now, I don't need ten generals to come in here ten times and tell me to bomb.”

The coming of age of precision guidance did sharply change conventional warfare involving conventional armies, as the two Gulf wars showed: aircraft were able to destroy hundreds of armoured vehicles and paralyse Saddam Hussein's ground forces well before they could engage American or British ground troops. And as NATO's air campaign against Serbia showed in 1999, precision weapons can nowadays destroy selected targets, even in the heart of cities, without causing a thousandth of the civilian casualties that were routine in the second world war.

But when it comes to rooting out guerrillas and insurgents, wishful thinking still tends to outweigh technological capabilities. A study of the use of air power in small wars over the past century by James Corum and Wray Johnson, two former professors at the American air force's School of Advanced Airpower Studies, concluded that insurgents and terrorists “rarely present lucrative targets for aerial attack”. Air power has been used to greatest effect in such campaigns only indirectly: to gather intelligence, move troops or maintain communication.

And as others besides the Israelis have found, trying to wage an air campaign against irregular forces is especially vulnerable to the backlash that invariably arises as civilian casualties mount. Since terrorists and guerrillas blend into the civilian population, fight in small units and rely on surprise and mobility, accurate and timely intelligence is crucial, and bad intelligence always results in civilian casualties, sometimes lots of them. Moreover, dropping a bomb in an urban area, even when the intelligence is correct, and even when the bomb is precision-guided, is likely to kill innocent neighbours.

Israel's excellent intelligence in the occupied territories has enabled it to carry out lethally successful precision air strikes against the leaders of Hamas and other outfits there. But even these attacks have often resulted in casualties to bystanders. In Lebanon the Israeli air force found itself in the worst of both worlds, killing civilians without achieving military objectives. No crucial Hizbullah leaders were killed and almost none of their mobile rocket-launchers were destroyed. Only the fixed launchers for their longer-range missiles north of the Litani river appear to have been much damaged.

Not by bombs alone

Israel was hoping, through its use of air power in Lebanon, not just to hammer an irregular guerrilla force; it was also seeking to put pressure on the Lebanese government and others to disarm Hizbullah and secure its southern border. In this General Halutz was said to have been strongly influenced by NATO's war of psychological pressure against Slobodan Milosevic, which aimed to force the Serb dictator to take a specific action—pull out of Kosovo and halt his ethnic cleansing—through an air campaign that kept ratcheting up the costs by destroying power plants, bridges, factories and other bits of infrastructure.

But, in the end, Israel found that even in a war that hinged on psychology and “consciousness”, air power had inherent limitations. In the 48 hours before the ceasefire went into effect, Israel sent a surge of ground troops into southern Lebanon to engage in the “anachronistic” pursuit of seizing territory—precisely in order to create the conscious perception of tangible military victory that air power alone had failed to deliver. The truly smart bomb remains as elusive as the silver bullet.

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New Orleans

One year on

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Reuters

With heartbreaking slowness, America's capital of good times is starting to revive

THE city of New Orleans is famous for putting a blithe face on things. So perhaps it did not seem odd to the newly re-elected mayor, Ray Nagin, to suggest last month that the first anniversary of Hurricane Katrina would be marked by a comedy show, a party at the Masquerade bar and a fireworks display.

It will not happen. For the fireworks, had they come, would have illuminated a streetscape that still looks largely as it did in November, when the last of the water was pumped out. The hurricane flooded three-quarters of the city, killed more than 1,500 people and scattered many of the rest to the four winds. To those there now, Mayor Nagin's proposal was a bad joke.

Katrina may have made landfall a year ago, but nearly every story in the *Times-Picayune* still revolves around the storm. A recent front-page feature on the new quarterback for the Saints, the city's football team, drew one reader to complain about the paper's lack of gravitas. In response, another wrote that it was high time to notice something other than misery.

But it is hard. Katrina's mark is everywhere. It still affects the way the city runs: the patchy mail deliveries, the frequent power cuts, low or non-existent water-pressure. In apparently tidy streets it shows in unkempt yards and a brown line on house walls. Most flooded buildings have been gutted, their interiors stripped to the frame. But others, from which the owners simply fled and never came back, are now foul nests of mould in which squats, sometimes, a non-working refrigerator full of year-old food. The city council has passed a law requiring anyone who owns a house in New Orleans to clean up by August 29th, the storm's anniversary, or have the property seized. There is no sign the politicians mean what they say.

People at least are coming back. More than a third of the owners of flooded homes have taken out some sort of building permit from City Hall, signalling that they intend to live in the city again. (In one state survey of 2,500 Katrina evacuees, 57% said that they were “somewhat” or “very” likely to return home eventually.) Many of these permits seem to be simply “placeholders”, pre-emptively obtained in case the city or the state start to toughen up the building rules. But plenty of the permit-seekers are also starting

to rebuild.

In upper-middle-class Lakeview small, obsolete homes are being cleared away. Brand-new and larger structures are often replacing them. Pontchartrain Park, the first subdivision built for upwardly mobile blacks in the days of segregation, is packed with temporary trailers as residents patch up their modest ranch houses. Farther from the centre of town, some of the smarter parts of the vast, suburbanised section of the city east of the Industrial Canal have also bounced back.

Generally, those districts that have recovered have done so in spite of government. Public assistance has been slow. Wealthier sections have returned more quickly, mostly because homeowners were more likely to be fully insured and had other resources to tap even if they weren't. Mixed-income sections next to the high-and-dry part of town—“the isle of denial”, as locals call it, most of it along the Mississippi River—have shown signs of life, both because they suffered lighter flooding and because they are next to thriving areas. Neighbourhood loyalty has also helped. Broadmoor, a mixed black-and-white district in the low part of the old city's bowl, which took in about eight feet of water, organised impressively when officials said that it might be converted to parkland.

The still-low Lower Ninth

In the shattered Lower Ninth Ward, which shocked the world when its poor black residents were apparently abandoned by the authorities, some progress is apparent. Near the spot where the Industrial Canal first broke, most of the houses that were swept off their foundations and into the street have been cleared. Farther from the break some modest rebuilding has begun, particularly in the historic Holy Cross area along the riverfront.

Early on there were conflicting signals about the future of the Lower Ninth. Conspiracy theories abounded, among them the idea that the poor were being cleared out to make way for high-rent condominiums. They were fuelled by a tendency among officials to treat the Lower Ninth as a special case. (People there, for example, were the last to be allowed to return to their homes.) Talk persists of a plan to cure New Orleans's persistent poverty by keeping out the poor; and, in general, the poor have found it much harder to return. For those who were private renters, the difficulty stems mainly from foot-dragging by landlords trying to decide whether to rebuild. The city's infamous housing projects, meanwhile, have been mostly shuttered since the storm.

Only about one in five families living in public housing has been able to return, although activists complain that many buildings were not much damaged. Alphonso Jackson, secretary of the federal Department of Housing and Urban Development (who has made no secret of his preference for mixed-income developments), announced in June that the government would demolish four of the city's ten complexes, but promised to reopen another 1,000 units of public housing by the summer's end. It is still not clear how many projects will be replaced.

The poorer sections of town are mostly waiting for the dispersal of $7.5 billion in federal aid to homeowners who did not have enough insurance either to repair or rebuild. The first of the grants, which are capped at $150,000, should be handed out any day. Roughly 100,000 people have applied for them. But Congress took nearly ten months to appropriate the money; and the private company hired to hand it out by the state, which is in charge, says it may take more than seven months to process each applicant. Some homeowners, therefore, will not be able to begin repairs until more than a year and a half after the storm. And with the amount to be done in New Orleans, and contractors trying to juggle as many clients as possible, rebuilding may well be agonisingly slow.

Brighter, but chaotic

This points to one silver lining after the storm. There are plenty of jobs in New Orleans these days. As well as the massive tasks of cleaning and rebuilding, the area's largest employer, the Ochsner Clinic Foundation, is open and operating, as are the public and private colleges and many of the hotels. (Some 71% of the 38,000 hotel rooms the city offered before Katrina are now back in service.) In the central business district, office and retail space is being snapped up fast. But it is hard to get workers because there is nowhere really to live. Many service industries are crowded with customers and desperate for labour. Burger King has offered new employees “signing bonuses” of up to $6,000, a tactic that has been swiftly copied by competitors.

On August 9th Moody's confirmed that while the city's rating was still below investment grade, there were “definitely signs of improvement”. Tourism in particular, the city's economic backbone before the storm, was coming back. Most comforting, and surprising, city revenues had not decreased as much as feared. The take from the sales tax is about 70% of the year-to-date figure for previous years. And property assessed valuations, which had been expected to fall by half, have dropped by only a quarter.

But the city is much smaller. Dispassionate estimates of its current population range from about 200,000 to 235,000. Before the storm around 455,000 people lived there. The trend was already downwards; in 1960, the city's peak, the figure was 630,000. Most demographers expect continued growth as the federal aid comes in and the planned residential projects get going, but it will be slow, and they see a plateau in the near future. The Rand Corporation, for example, estimates that the city will reach 272,000, or about 60% of its pre-storm population, in two years' time.

Before the storm, the city's three great problems were crime, corruption and poor schools. The new, shrunken metropolis may not show much improvement. The school system is in a state of flux that began before Katrina and is now exacerbated by a delay in the opening of parish (county) schools, but many hope that its new model, dominated by independent “charter” schools, may be an improvement. New Orleans's sleazy political culture, however, was not washed away by the storm, and crime has been increasing after a post-storm lull. In recent weeks 300 National Guardsmen have been deployed after a spate of gangland-style executions. It is hard to be optimistic about a city that needs Humvees to keep order.

And order, or proper planning, is perhaps what the city needs most. Early on, experts warned of the “jack-o'-lantern effect” that could result from a patchy recovery. Some recommended restricting building, or at least public investment, to the areas with the best chance of coming back.

In the end, however, Mr Nagin declared his support for “private property rights” and declined to restrict rebuilding in any way. The thorough planning process he originally wanted never got off the ground because of lack of federal funding. Without such a plan, some neighbourhoods drew up their own, while the city council had a go in districts that could not afford professional planners.

Eventually, the state and the private Rockefeller Foundation stepped in with help. Thanks to them, “unified” planning has begun, and the latest round of it should be finished by the end of the year. But some decisions should surely have been made much sooner: where schools should be rebuilt, which sections of the sewer system should be fixed, where new parks might be put, and what sort of city should rise from the flotsam of the old.

Living in New Orleans before Katrina was an adventure. It has now become an adventure that many might rather skip.

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The JonBenet Ramsey case

The greatest fear

Aug 24th 2006 | WASHINGTON, DC
From The Economist print edition

America's laws about sex offenders are full of well-intentioned confusion

Reuters

WHILE flying from Bangkok to Los Angeles earlier this week, John Mark Karr ate a meal of paté, salad, fried king prawns, steamed rice, broccoli and chocolate cake. He drank a beer, then crushed the empty can with his hands. Americans know a lot about Mr Karr's meals—as well as his two marriages, his phone calls to a clinic that performs sex-change operations and his reaction to the impromptu singing of a Bee Gees song—because he has been implicated in one of the country's most notorious crimes.

In 1996 the body of a six-year-old girl, JonBenet Ramsey, was found in the basement of her home in Colorado. She had been struck in the head, garrotted and, perhaps, sexually assaulted. A ransom note demanding the oddly precise sum of $118,000 was also discovered. The police and the media have devoted countless hours to the case; but, until last week, nobody had been arrested.

Ten years ago, the tone of media coverage implied that JonBenet's parents had got away with murder. Mr Karr's arrest in Thailand led to some sharp changes in direction. “Solved”, announced the New York *Daily News* on August 17th. Television reporters helpfully pointed out that Thailand is known for sex crimes, and that Mr Karr slightly resembles Tony Perkins, the star of “Psycho”. From internet sleuths came the news that the suspect had tried to set up a website for children.

A few days later, the case seemed less clear-cut. Although Mr Karr had told reporters he was with JonBenet when she died, his family questioned that. It transpired that he had a deep interest in child killings and an active fantasy life. After these revelations, the tone of media coverage changed again, although only slightly. The current consensus is that Mr Karr is either a killer or a delusional paedophile, and ought to be locked up in either case.

It is not surprising that suspicion should adhere so readily to someone like Mr Karr. Americans fear nothing more than the stranger who targets children. A Gallup poll last year found that 66% of respondents were “very concerned” about child molesters. Only 52% of people worried as much about violent crime, and just 36% fretted about terrorism.

Such fears have driven changes to the law. At the time of JonBenet's murder, three states had restricted where convicted child molesters and other sex offenders could live. By 2004 another 11 had done so, according to David Singleton of the Ohio Justice and Policy Centre. Similar laws are being considered by another 12 states and by a rapidly growing number of towns. A typical law, approved this week by Monroe, New Jersey, prevents some sex offenders from living within 2,500 feet (762 metres) of any school, child-care centre, playground, library or place of worship —in other words, just about anywhere.

The evidence that such laws protect children is thin. Most children are harmed by family members or acquaintances. The last time the Justice Department looked in detail at the matter, in the late 1990s, it found that just 3% of child molesters were re-arrested for a similar crime within three years of being released from prison. Seven “ordinary” ex-convicts—robbers, burglars and the like—were arrested for molesting children for every one convicted child sex offender who was collared for the same offence. So much for history being destiny.

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College education

The ladder of fame

Aug 24th 2006 | WASHINGTON, DC
From The Economist print edition

Not on it? Then seethe, or make your lifts smell of lemons

ON AUGUST 18th *US News & World Report* released its 2007 rankings of America's top colleges. The survey began in 1983 as a simple straw poll, when the magazine asked 662 college presidents to identify the country's best places of learning. It has since mutated into an annual ordeal for reputable universities. A strong showing in the rankings spurs student interest and alumni giving; a slip has grave consequences for public relations.

University administrators deeply dislike the survey. Many reject the idea that schools can be stacked up against one another in any meaningful way. And the survey's methodology is suspect. The rankings are still based partly on peer evaluations. They compare rates of alumni giving, which has little to do with the transmission of knowledge. Besides, the magazine's data are supplied by the schools and uncorroborated.

But whether the rankings are fair is beside the point, because they are wildly influential. In the 1983 survey barely half of the presidents approached bothered to respond. Today, only a handful dare abstain.

Most, in fact, do more than simply fill out the survey. Competition between colleges for top students is increasing, partly because of the very popularity of rankings. Colin Diver, the president of Reed College in Oregon, considers that “rankings create powerful incentives to manipulate data and distort institutional behaviour.” A school may game the system by soliciting applications from students who stand no chance of admission, or by leaning on alumni to arrange jobs for graduates. Reed is one of the few prominent colleges that dares to disdain to take part in the *US News* survey.

In some ways, the scramble to attract applicants has helped students. Universities such as Duke in North Carolina and Rice in Houston are devoting more money to scholarships. That seems a reasonable response to the challenge of the rankings, as the National Centre for Education Statistics reckons that roughly two-thirds of undergraduates rely on financial aid.

Other colleges, though, are trying to drum up excitement by offering perks that would have been unheard of a generation ago. Students at the University of California, Los Angeles now appreciate weekly maid service in the dorms. “The elevators”, enthused a respondent to an online survey, “smell lemon fresh.” Students at Pennsylvania State University enjoy free access to Napster, the music-sharing service. Multi-million dollar gyms have become so common that they are unremarkable.

University officials, defending this strategy, often imply that they are only responding to student demand. Discouraging words for those who believe that a college's job is to educate, not coddle.

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Celebrities and tax

A bag too far

Aug 24th 2006 | LOS ANGELES
From The Economist print edition

The end of a nice little Hollywood freebie—or maybe not

FIRST the paparazzi harass those shy, innocent creatures known as Hollywood celebrities, and now the tax man does the same. At this weekend's “Emmy” awards for the stars of American television, those who present the extravaganza will get not just their usual basket of freebies, from jewellery and holidays to mobile phones and plasma TVs, but a form from the Internal Revenue Service. In the words of the IRS, “These gift bags are not gifts for federal income tax purposes because the organisations and merchants who participate in giving the gift bags do not do so solely out of affection, respect, or similar impulses for the recipients.”

Indeed so. The goodies doled out at the Oscars, the Emmys and the Golden Globes are designed to garner publicity, and therefore sales. When Paris Hilton walked away with some Blue Marlin men's sportswear at this year's Sundance film festival, her then boyfriend, Stavros Niarchos, became a walking advertisement for the company. This year's Oscars' gift bag was said to be worth $100,000. To the shock of Gwyneth Paltrow, this year's Golden Globes gift included a cruise to Tasmania and Antarctica valued at $22,000.

Now the Academy of Motion Picture Arts and Sciences, which has been handing out gift bags to the unpaid presenters of the Oscars for the past three decades, has said it will not do so in future. The Academy has reached a settlement with the IRS, though neither side will reveal the details. But there is nothing to stop companies setting up their gift shops away from the official venue, as they do at Sundance. And the gift of a $10,000 piece of jewellery is a bargain even after paying $4,000 in tax. The cool thing, of course, is to accept the gift and then donate it to charity, as George Clooney did—for the benefit of the Hurricane Katrina victims—at this year's Oscars. Not only does such a gesture look good, but it might even qualify for a tax deduction.

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About sponsorship

The national parks

Scenic, but not secure

Aug 24th 2006 | BIG BEND, TEXAS
From The Economist print edition

Drugs and immigration woes are hurting parks along the border

THE Rio Grande, whose sharp turn gives Big Bend National Park its name, is little more than a muddy creek these days. Drought and irrigation have sapped its strength. Deep canyons enclose the river at several spots, but Mexicans can still easily cross over. Plenty do so, illegally. Last year 1,160 people were caught in the park, which—together with an adjacent “wild and scenic” river area—stretches for 245 miles (395km), or about one-fifth of Texas's border with Mexico. More than 23,000lb (10,433kg) of marijuana were seized in the park, too—a huge jump from the previous year, though no one quite knows why. Seizures have since fallen back to their previous levels again.

Visitors to Big Bend are more likely to see herds of pig-like *javelinas* than illegal human activity. But at border parks across America smuggling is a huge headache. Rangers must worry not only about rescuing lost hikers and conserving nature, but also about security. Elsewhere in Texas, officials at Padre Island National Seashore, working with the Coast Guard and other agencies, seize about 25,000lb of marijuana each year from incoming boats.

The worst-hit place is Organ Pipe Cactus National Monument in Arizona, which is part of the parks system. In 2002 a young ranger on patrol there was killed by drug dealers. Last year the Park Service arrested 1,300 people for illegal activity and nabbed 17,000lb of marijuana. The Border Patrol arrested another 6,500 people on the park's land, and impounded more drugs. Rangers spend most of their time on security issues, says Kathy Billings, the park superintendent—and the traffic has created a “spiderweb” of illegal trails, not to mention rubbish, that damage the fragile landscape.

The good news is that the very features that distinguish parks—rugged terrain, glaciers, rushing water, a lack of roads—usually obstruct smugglers. But even the mountainous parks bordering Canada have their troubles. North Cascades National Park, in the north-west, may be the only park in America to have captured someone who tried to carry out a terrorist plot. Abu Mezer, a Palestinian, was arrested in 1996 in North Cascades and was sent back to Canada. After trying several more times to enter America, he was arrested in New York City in 1997 in connection with a plot to bomb the subway.

Nowadays, at North Cascades as elsewhere near Canada, the main problem is drugs. Immigration and customs officials recently announced that a joint operation with Canadian Mounties, Operation Frozen Timber, had confiscated 8,000lb of marijuana and 800lb of cocaine in and around the park since 2004. The smugglers were using helicopters to drop marijuana into North Cascades and the nearby national forests; the cocaine was mostly going the other way, into Canada.

To the east, in Glacier National Park, there have been a few documented cases of illegal cross-border traffic—though the mountains, cliffs and grizzlies act as a deterrent, says Patrick Suddath, a ranger. Glacier allows boats from its sister park in Canada to enter at a scenic spot called Goat Haunt, but only Canadians and Americans with the proper documents may venture beyond the ranger station.

Border tightening has also changed the way of life in some parks. In the old days at Big Bend, Mexican villagers would routinely cross the border to sell their wares and to buy milk and petrol from park stores. American tourists also liked to venture over to the Mexican side for a *tortilla* or *cerveza*; Mexicans provided transport in the form of boats and *burros*. But all crossings at Big Bend were closed in 2002. A petrol station in Big Bend's Rio Grande village promptly lost 75% of its revenue, and the Mexicans let their newly unemployed *burros* loose, resulting in a *burro* explosion. The park makes an exception now only for 40 or so Mexican firemen, who are on standby for summer blazes.

Parks must also keep wildlife in mind, since bears and elk do not pause for borders. Just last month Organ Pipe completed a vehicle barrier that is supposed to stop cars but allow the endangered Sonoran pronghorn, a type of antelope, to slip underneath. At Big Bend officials are circumspect about proposals in Congress to erect a fence across parts of the southern border, though their own park is not included in current bills. “You would not have any desire to build a fence on top of a 1,500-foot escarpment,” says David Elkowitz, the park's interpretation chief. Even without a fence, dreams of creating an international park along the border, joining Mexican and American land, seem permanently on hold.

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Lexington

America's welfare state

Aug 24th 2006
From The Economist print edition

How Alaska's rugged pioneers wallow in unearned cash

NEVER let anyone tell you there is nothing to do in Alaska during those long, dark winters. When the snow is deep, you can jump off the roof of your house into a drift. “It's like landing in a cloud,” says David Pine, a local student. You can go cross-country skiing on a floodlit trail around Anchorage—which becomes a cycle path in the summer. Alaskan licence-plates may growl that this is the “The Last Frontier”, but urban areas—where four-fifths of Alaskans live—are amply stocked with espresso bars, broadband connections and all the comforts of modernity. Alaskans are, on average, slightly richer than Americans who live in the “lower 48” states. Yet they are wrapped in a thick mink coat of subsidies.

Federal spending supports a third of all Alaskan jobs, according to the Institute for Social and Economic Research at the University of Alaska in Anchorage. Alaska's representatives in Washington, DC have a hard-earned reputation for piping federal dollars back home. A proposed $229m “Bridge to Nowhere”, connecting the town of Ketchikan to an airport on an island with a population of 50, is the most notorious boondoggle. But the state is paved with pork—from its half-empty high-speed ferries to the $500,000 that the federally-funded Alaska Fisheries Marketing Board gave to Alaska Airlines to paint a giant king salmon on one of its aeroplanes. Citizens Against Government Waste, a watchdog, calculates that Alaska guzzles more pork per head than any other state.

Why is Washington so generous to Alaskans? It is not as if they have no other source of cash. Alaska's oil wells allow the state to function without levying an income tax. And the interest from a $34 billion “Permanent Fund”, in which past oil receipts are stashed, gives every Alaskan man, woman and child an annual handout, expected to be about $1,000 this year.

There are some good reasons for the federal government to spend money in Alaska anyway: it supports 21,000 troops there, it has obligations to indigenous Alaskans and it owns (and must look after) some 60% of Alaska's land. Add to this America's romantic view of pioneers, and perhaps a lingering fear that its vast territory, if no one is encouraged to occupy it, may one day be grabbed by a foreign power. That was a reasonable fear back in 1880, when, 13 years after America bought Alaska from Russia, a census found only 435 frostbitten non-native residents. During the cold war, too, it made sense to play safe. But now the population is a healthy 665,000 and there is no plausible invader. Surely, with oil prices so high, the taxpayers of the lower 48 should be given a break?

For some reason, this idea gets little attention in Alaska. Politics revolves around two issues: how to suck more cash out of Washington and more fossil fuels out of the ground. Alaska's three members of Congress are adept at the former. The latter task is trickier—it involves complex negotiations with energy firms, and an uphill struggle to persuade the rest of America that a bit of drilling will not do too much damage to the Arctic National Wildlife Refuge. The big debate in the current race for the governorship concerns how and where to build a gas pipeline.

The Republican incumbent, Frank Murkowski, favours a pipe running south from Prudhoe Bay (where the gas is pumped) to the Midwest, via Canada. He has come close to cementing a deal with oil firms. But he was rudely dumped by his own party in a primary on August 22nd. His ditching was unrelated to the pipeline or any other big issue; his problem was simply that Alaskans do not like him. His campaign song acknowledged as much: “And I'm proud to be supporting Frank Murkowski/ He's a man that's not afraid to take some licks/ He might not win awards for his charisma/ But Alaska's gonna need Frank in '06.”

Apparently Alaskans disagree. Mr Murkowski came third in the primary, with less than a fifth of the vote. Yet as a senator for 22 years, he never had trouble getting re-elected. What has changed? When Mr Murkowski was far off in Washington, DC, his critics snipe, Alaskans never got to know him. More important, as a senator, he brought home goodies. As governor, his decisions have involved pain as well as gain for Alaskans.

Inheriting a deficit when he took office in 2002, he raised taxes on cigarettes and abolished the “longevity bonus”, a handout to persuade old people to stay in Alaska. This was probably necessary, but it was tactless of him to order a state jet, which he seems to use a lot, while calling for austerity. These and other displays of high-handedness, such as appointing his daughter Lisa to fill his vacant Senate seat, doomed Mr Murkowski.

The two hopefuls

The victor in the Republican primary, with 51%, was Sarah Palin, an articulate former small-town mayor. She is both fiscally and socially conservative, abhorring abortion (though, as governor, she would have no power to ban it) and favouring the death penalty for child-killers (though Alaska does not allow it). She has threatened to toss a figurative bomb into the pipeline negotiations, by demanding that other routes be considered and by suggesting that the gas should be liquefied in Alaska and shipped out by tanker. Her critics think this impractical.

Her Democratic opponent in November will be Tony Knowles, who was governor between 1994 and 2002. His party label ought to hinder him in such a conservative state as Alaska, but he is seen as a pragmatist. Mr Knowles says he would renegotiate Mr Murkowski's pipeline contract so skilfully as to net an extra $2 billion a year for Alaskans, though he gives few details.

Both candidates agree that Alaska needs to diversify, so that its economy depends less on a commodity whose price goes up and down like a drunken mountaineer. But neither really knows how this might be done. And neither likes to consider that Alaska's federal subsidy might also take a tumble some day.

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About sponsorship

Colombia's paramilitaries

Crime and (maybe) punishment

Aug 24th 2006 | BOGOTÁ
From The Economist print edition

AFP

President Uribe (pictured right) faces conflicting pressures as he tries to strike a balance between peace and justice

FOR the past year, the senior commanders of Colombia's demobilised paramilitary groups have zipped freely around the country in helicopters and Humvees, shopping in the most exclusive stores and holidaying at luxury resorts. Since many of them may have committed large-scale atrocities, this has drawn mounting criticism in Colombia and beyond. On August 16th, a fortnight into his second term as the country's president, Álvaro Uribe sent police to arrest 14 of the top paramilitary chiefs; four others then turned themselves in. The message seemed clear: co-operate with special prosecutors or risk losing the leniency promised in return for having given up their weapons.

The paramilitaries, some 30,000 strong, were the largest, and often the most brutal, of Colombia's illegal armies. Loosely grouped under the banner of the United Self-Defence Forces of Colombia (AUC), many were formed by landowners frustrated by the government's past inability to protect them against the left-wing guerrillas of the FARC. Others were simply death squads formed by drug barons.

Government officials point to their voluntary disarmament, completed earlier this year, as an unequivocal success. Certainly, it has helped in the sharp reduction of violence, which won Mr Uribe a second term from grateful voters. A statistical analysis by CERAC, a think-tank in Bogotá, suggests that up to 2,800 more Colombians might have been killed had the demobilisation not happened. Some of the areas formerly under paramilitary control appear to be at peace. But in other areas, locals say, the warlords remain in charge. “They're out of uniform but they're not out of business,” says a resident of the Sierra Nevada de Santa Marta in the north. Elsewhere, criminal bands or the FARC have filled the vacuum left by the AUC.

The president's detractors complain that the government has granted a de facto amnesty to the warlords, whose crimes range from mass murder to kidnapping and extortion. The United States, which gives Colombia some $600m a year in military aid, wants some extradited to face drug-trafficking charges. American officials have expressed growing frustration at the government's apparent lenience. In both countries, says Michael Shifter of the Inter-American Dialogue, a think-tank in Washington, DC, many people were sickened by the “grotesque quality of these guys running around” living lives of luxury rather than paying for their crimes.

Yet the government's treatment of the paramilitaries remains a game of cat and mouse in which it is not always clear which side has the sharper claws. In its negotiation of the Justice and Peace Law and of paramilitary disarmament, the government recognised that it had not inflicted military defeat on the AUC. It also wants to apply the same legal framework in future to the FARC, which though weakened by Mr Uribe is similarly undefeated.

So the law, approved by Colombia's Congress in 2005 after lengthy debate, put more stress on peace than justice. It requires the paramilitaries to confess their crimes and declare their assets, in return for which they would receive much-reduced sentences in open prisons. In May, in a notable piece of judicial interventionism, the Constitutional Court put more teeth into the law: it knocked down a provision that gave prosecutors only 60 days to investigate the paramilitaries' crimes, and required that their assets, even if legally obtained, should be used to compensate victims. That brought threats from some AUC leaders to take up arms again.

The government continues to tread carefully. Its most powerful lever is the threat of extradition. But days after the arrests on August 16th, it suspended an extradition warrant against one of the chiefs, whom Mr Uribe had previously said was just an ordinary drug trafficker posing as a paramilitary. And the paramilitary leaders under arrest are not exactly languishing behind bars yet. Those now in custody are being held at a converted holiday camp on the outskirts of Medellín. A dozen others are still in hiding. Luis Carlos Restrepo, the peace commissioner, said he was using his “persuasive powers” to try to convince them to turn themselves in.

The government faces a tricky balancing act. On the one hand, it wants to prevent the paramilitaries returning to organised violence. But on the other, it must find a formula that is acceptable to the courts in Colombia and to donor governments in the United States and Europe, even if this is less than the rigorous justice demanded by human-rights groups. Officials have wrestled for months over the text of a decree implementing the law. According to *Cambio*, a weekly magazine, the United States' embassy objected that an early draft would have amounted to a “legal pardon” for the paramilitaries.

Implementation of the decree, which is close to being finalised, will be in the hands of a special team of prosecutors, being trained and equipped by the United States. They started work this month, 14 months after the law was approved. The public prosecutor, Mario Iguarán, was previously the deputy justice minister, and closely involved in drafting the law. How the new team performs will be a test of whether Mr Iguarán exercises the autonomy from government that he is supposed legally to enjoy.

The paramilitaries complain that the constantly shifting legal framework is denying them the guarantees they were promised before disarming. Officials seem to be sensitive to their concern. “There's a real temptation to sit back and say ‘they've handed in their arms and everything's OK’,” says Mr Shifter. But in the long run, say many in Colombia, only the firm application of the law will be able to bring lasting peace.

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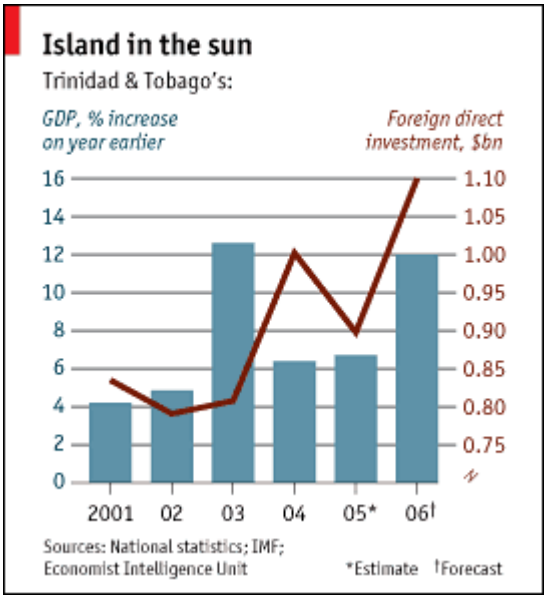
Trinidad and Tobago

A Caribbean tiger

Aug 24th 2006 | PORT OF SPAIN
From The Economist print edition

A gas boom and a dash for development

IF YOU fly into Port of Spain at night over the Gulf of Paria, you see the island of Trinidad ablaze with lights from roads, suburbs, shopping malls, building sites and a necklace of chemical and steel plants. The facing Venezuelan coast is dark. Since the late 1980s successive governments of Trinidad and Tobago have welcomed private investors willing to develop the country's offshore natural gas. That reverses the statist policies of Eric Williams, a Marxist historian who led the country to independence from Britain in 1962. It is also a contrast with today's Venezuela, where Hugo Chávez has been less keen on foreign investment.



Cash is pouring into Trinidad. It has become the biggest supplier of liquefied natural gas to the United States, and the world's top exporter of methanol and ammonia. Last month Methanol Holdings, a Trinidadian-German group, agreed a loan of $1.2 billion for a new chemical complex. Essar, from India, wants to spend a similar amount on a steel mill. Alcoa and Alutrint, a Trinidad-Venezuelan joint-venture, each plan new aluminium smelters.

Because of the new investment and high energy prices, Trinidad's economy is growing at Chinese rates (see chart). Prices of more expensive houses have tripled in three years. Unemployment stands at 7%, down from a peak of 22% in 1987. Wages for unskilled jobs as security guards or in fast-food joints are edging up. So are beer prices, but the bars in Port of Spain are crammed with immigrant labourers—welders from St Vincent, Jamaican architects and French engineers.

The government's aim is to use gas to turn Trinidad into a developed country by 2020. But the boom is throwing up problems too, ranging from rising food prices to traffic jams, with two hours of gridlock each morning. In the rural south a middle-aged householder says his district has had no mains water for days because of the demand from thirsty factories. The biggest worry is crime. There were 390 murders last year, in a population of just 1.3m. Anxious middle-class people weigh the risks of a late-night journey home.

Some Trinidadians fear that the island is trying to grow too fast. If planned industrial projects go ahead, known gasfields could be used up in about 20 years. They worry about the environment, and note that growth is lopsided: agriculture is in swift decline, for example.

“We know what we're doing,” insists Patrick Manning, the prime minister, who is an oil geologist. He says the country's proximity to the American market means that companies will seek out more gas, adding to reserves. The government no longer welcomes basic petrochemical factories. Instead it wants to move to more sophisticated manufacturing, of plastics, car parts and oil platforms.

Reuters

The future is a free degree

Flush with revenue, the government has gone on a spending spree: on free higher education and skills training as well as roads, a commuter railway, low-cost housing, a national cancer-treatment programme and leisure facilities. It seems to find such mega-projects easier to implement than reforming routine public services. Hospitals are short of good administrators and, sometimes, medicine. Waiting lists for operations are long.

But the biggest threat to prosperity may be Trinidad's fractious politics, which mirrors the island's racial divide. Roughly half the population is Afro-Trinidadian, descendants of former slaves; a similar number are Indo-Trinidadian, whose ancestors came later as indentured labourers. The two groups mix fairly easily. But not in politics. Most Afros support Mr Manning's People's National Movement; Indos vote for the opposition United National Congress. Elections are always close-fought and relations between the parties are bitter. What could be open debates, such as whether to approve an aluminium smelter or build a sports centre, are immediately politicised. In Trinidad today—as Eric Williams said during a previous oil boom in the 1970s—“money is not the problem.”

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Trade in South America

Pisco sour

Aug 24th 2006 | LIMA AND SANTIAGO
From The Economist print edition

Sweeter times ahead on the Pacific seaboard

LITTLE by little, South America is dividing itself into two very different trade blocks. Mercosur, based on Brazil and Argentina and recently joined by Venezuela, is relatively protectionist and suspicious of bilateral trade deals with the United States. Most countries on the Pacific seaboard are committed to free trade with both *el norte* and Asia. The latest piece in this jigsaw came on August 22nd, when Chile's foreign minister, Alejandro Foxley, visited Peru's capital, Lima, to discuss his country's plan to rejoin the Andean Community, which it left in 1976.

This continental divide is far from absolute. Chile, with the most open economy in the region, is an associate member of Mercosur (it has a free-trade agreement with the block, but is not part of its putative customs union). So are Peru and Bolivia. Ecuador and especially Bolivia have reservations about closer ties with the United States. Not so Paraguay and Uruguay, although both are members of Mercosur.

But the drift is clear. In April Hugo Chávez, Venezuela's president, pulled out of the Andean Community in protest at trade deals concluded by Peru and Colombia with the United States. Alan García, Peru's new president, has been especially keen to draw Chile into the Andean group as a counterweight to Mr Chávez. In Lima Mr Foxley also signed a bilateral trade agreement with Peru.

Relations between Peru and Chile have long been difficult. Chile grabbed part of Peru and Bolivia in a 19th century war. Peru disputes their maritime border. Mr García has gone out of his way to improve relations, which were stormy under his predecessor. He shrugged off a campaign in the local press aimed

at stirring ill-feeling over *pisco*, a brandy named after a Peruvian port but over which both countries claim the right of origin. “It makes no sense to not get along with a neighbour that is a good commercial partner,” says Luis Carranza, his finance minister.

For its part, Chile argues that South American countries need to pool their export efforts to be able to supply the volume of products demanded by China and other Asian countries. Chilean officials insist they will maintain their ties with Mercosur. Argentina, under Néstor Kirchner, is an especially difficult neighbour: in 2004 it unilaterally cut gas exports to Chile, and then this year raised taxes on them. But Argentina and Brazil are Chile's most important local trading partners.

The biggest prize in this tentative re-alignment would be a rapprochement between Chile and Bolivia. Chile is short of energy, while Bolivia has huge natural gas deposits. But Bolivia wants Chile to restore its lost access to the sea. Peru would have to agree any deal, since any Bolivian corridor would be on its former territory. Last month, Chile scrapped import duties on most Bolivian products. But there's plenty more to discuss over a bottle of pisco.

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Mexico

Closer and closer

Aug 24th 2006 | MEXICO CITY
From The Economist print edition

Yet another contested election result

AP

Another campsite for López Obrador?

ANOTHER vote, another stalemate. On August 20th the poor and mainly Indian state of Chiapas, in Mexico's deep south, held an election for governor. The next day, newspapers ran photos of two candidates raising their arms in victory, just as had happened in the presidential contest last month. But this time, the party roles are reversed.

With 94% of the vote counted, Juan Sabines of the leftish Party of the Democratic Revolution (PRD) led his chief rival, José Aguilar Bodegas, by just 2,400 votes, an even narrower margin than Felipe Calderón, of the conservative National Action Party of President Vicente Fox, gained over Andrés Manuel López Obrador of the PRD in the presidential contest.

Mr López Obrador is demanding a full recount of the presidential vote, and has threatened to make Mexico ungovernable unless he gets one. He and his supporters have spent August sleeping in tents in the Zócalo, the capital's huge square, and along Reforma avenue. The electoral tribunal, a seven-judge federal court, has ordered a recount at 9% of polling stations, rejecting claims of wider irregularities. It seems likely to declare Mr Calderón the winner.

A victory for Mr Sabines in Chiapas would seal a solid block of support for Mr López Obrador in Mexico's poorer southern half. Mr Calderón's party is equally determined to thwart that. It withdrew its own candidate at the last minute, and switched its support to Mr Aguilar, who is from the Institutional Revolutionary Party (PRI). That marked the first alliance between the two parties since Mr Fox ended seven decades of rule by the PRI in 2000. It could foreshadow a similar pact at national level. To achieve effective government in the face of Mr López Obrador's threats, Mr Calderón will have to form a coalition with at least part of the PRI.

Mr Aguilar claims that the election was “extremely tainted” by irregularities. If declared the loser, he will complain to the electoral tribunal. Mr López Obrador accuses a “right-wing block” of trying to “prevent a government [which] emanated from the popular will.” But in Chiapas, as in the rest of Mexico, the only body entitled to interpret the popular will is the electoral tribunal.

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Rural Japan

Where have all the young men gone?

Aug 24th 2006 | OGAMA AND YUBARI
From The Economist print edition

Alamy

It's an old folks' home out there

IN THE hamlet of Ogama, a scattering of traditional wooden houses in a steep-sided valley just a ridge away from the Sea of Japan, the forest is claiming back land that had been cleared generations ago for rice and vegetables. By her small patch of mountain potatoes, 71-year-old Setsu Yachida sits down to rub her arthritic hands. Quite frankly, she says, she's lonely. Her husband is dead. Two elderly neighbours she had nursed have also died, and now she lives on her own a long way from the hamlet's few other members. Her children, town-dwellers, beg her to spend a night or two with them, but she refuses, because she would only feel more lonely when she came back. No, she says, she is going to wait for that day, in a couple of years' time, when the whole hamlet moves—lock, stock and ancestral graves—out of the valley for good. No need ever to come back then.

Over the next half century, demographers expect Japan's population to fall to from 128m to 100m. The process began last year, the first peacetime fall in population since records were kept. Yet in the countryside numbers have been falling for decades—and rural Japan will bear a disproportionate share of the future reduction in population. Already, more than two out of five people living in rural communities are 65 or over. Japan's farmers are the world's oldest. Though the absolute number of elderly farmers, at just under 2m, has not changed much since the second world war, the number of younger farmers has plummeted. In 1970 82% of farmers were under 65, last year only 42%. In Ogama the number of households has shrunk from 17 to six in roughly a generation, the population going from over 50 to just three men and six women.

In Europe and America farmers have a reputation for rugged independence. In Japan farming is sustained by collective effort. Because farms are smaller and more densely packed, irrigation ditches, flood protection, roads and indeed sanitation must be dealt with communally. Mutual duties extend to funeral arrangements. So when strapping sons leave for better-paying jobs in the city, the whole community feels the cumulative effects.

The head of Ogama hamlet is Kazuo Miyasaka, a retired seaman. He says he saw the coming extinction of the place a decade ago and started thinking then about how he and his neighbours might improve their lot. One idea was a golf course, but the valley is too mountainous. After much searching, he was introduced to an industrial-waste company in Tokyo. Mr Miyasaka asked the company whether it would

like to use the valley for landfill, if the landowners agreed to move out.

Mrs Yachida and most other residents agreed quite readily. Mr Miyasaka's proposal was for everyone to move together to the edge of Monzen, an agricultural town 25 minutes' drive away with shops and a hospital. By this spring, Mr Miyasaka had brought the several absent landowners round, with canny charm. (He replaced Ogama's tumbledown temple with a new one in the proposed new settlement, reassuring elderly widows that the family graves would not be so much moved as reunited.) Residents say they will get more than enough to build a new house and to pay hospital bills. If the Ishikawa prefectural government gives the nod, this impossibly beautiful valley—a rare glimpse of a lost Japan—will be buried under 150 metres of industrial ash, and Ogama will be the first Japanese community to have voted itself out of existence.

Ogama may be unique. But the trend for rural communities to seek income wherever it can be found, whether from high-security prisons or nuclear-power plants, is likely only to intensify. Under the premiership of Junichiro Koizumi, Japan has slashed local-government remittances and spending on the kinds of public works that used to bring money to the countryside. A decentralisation drive under Heizo Takenaka, the interior minister, is encouraging mergers among municipalities in need of a more secure tax base. In February Monzen, whose population has fallen to 8,000 from 19,000 in the 1950s, merged with nearby Wajima, a larger and more prosperous place by the sea.

Yet some municipalities are in so bad a state that no neighbour would dream of an alliance with them. Half a century ago Yubari, on the northern island of Hokkaido, was a coal-mining town with more than 100,000 people. The last of its mines shut in 1990. Today a population of 13,000 is strung out along the long road up the valley to the old mines at the top. Under its previous mayor Yubari reinvented itself as a tourist spot. It built a theme park in an old mine. An annual international film festival so impressed Quentin Tarantino that the American director named a character after the town. She was Gogo Yubari, a sociopathic schoolgirl.

Yubari melons, promoted assiduously by its mayor, have gained fame in Japan chiefly for their price—a pair sold this year for ¥800,000 ($7,200). But all the promotion cost money. Last month Yubari became the first municipality in 14 years in effect to declare bankruptcy, admitting that it had accumulated ¥63 billion in hidden debts, 14 times annual tax revenues. Mr Takenaka says that a new framework for local governments is needed to allow debts such as Yubari's to be forgiven. But it would also have to discourage lending to poorly run localities.

Whether such discipline will actually help depressed rural areas is another matter. As Mr Takenaka himself admits, though parts of the countryside are doing very well—especially bits near big cities, where small-scale farming can even be a part-time occupation—“the bad parts are very, very bad”. There is sometimes hope that salarymen will leave the city to reclaim and farm their family land. About 80,000 city-bred types made their way into the countryside last year, though one local official says they rarely put much investment into the land, treating it more as a hobby—and their children rarely follow. When asked, country people tend to say that city folk have forgotten about them.

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Nepal

Poised between revolutions?

Aug 24th 2006 | KATHMANDU
From The Economist print edition

Having successfully ousted a king, Nepal is still looking for peace

JUST four months after huge demonstrations forced King Gyanendra to relinquish absolute power, protest has become a way of life in Nepal. Its latest success came on August 20th, when, after violent demonstrations in Kathmandu and elsewhere, the government rescinded its attempt to raise the prices of kerosene, diesel and petrol. Unfortunately, the goal that motivated many to join the original revolt earlier this year is proving harder to reach: a lasting peace in the ten-year civil war with Maoist insurgents.

AP

Prachanda the potential Octobrist

Still, it seems tantalisingly close. The Maoists are observing a ceasefire, and in June agreed to join an interim government with the seven-party alliance of democratic parties that backs Girija Prasad Koirala, the prime minister. There would then be elections—as early as next April—to an assembly to draft a new constitution. This month the Maoists accepted that their fighters would be confined to cantonments, where the United Nations would monitor them. The government's army would be confined to its barracks. A beefed-up United Nations presence, to be led by Ian Martin, a veteran of the transition in East Timor, and now head of a much-praised UN human-rights operation in Nepal, is to be announced shortly.

Every element of this seemingly neat arrangement, however, is uncertain. The parties, for example, are loth to let the Maoists join the government until they have disarmed. But so far they have not even agreed to be separated from their weapons in the cantonments. “Unless and until this reactionary, cruel, ruthless royal army is disbanded,” says Dev Gurung, a senior Maoist negotiator, “the people will still need their weapons.”

Some of the democratic politicians, such as Prakash Saran Mahat, a former foreign minister, agree that the army remains a threat, albeit a subdued one. However, he says, “it could stage a coup, but not create problems at the grass roots.” The Maoists could do the latter. Their leader, Pushpa Kamal Dahal, better known as Prachanda, has said he has 30,000-35,000 soldiers, who would be confined, and a further 100,000 militia members, who would not. Since these are responsible for much intimidation and extortion in the countryside, they might make it hard to hold free and fair elections.

Next, there are fundamental disagreements over the formation of an interim government and a body to replace the parliament. The Maoists want the interim constitution to declare Nepal a republic, rather than let the constituent assembly decide that. But among the parties, there is still some support for a ceremonial role for the monarchy. One of the big mainstream parties, known as the UML (for Unified

Marxist-Leninist), has suggested that a referendum on the role of the king be held simultaneously with the assembly elections. Its leader, Madhav Kumar Nepal, claims that Prachanda, who insists the monarchy is already “suspended”, agrees with this.

Also troubling is the Maoist insistence that the interim constitution reflect “ethnic federalism”—ie, a division into autonomous regions. Mr Gurung says the model would be a “multinational country, like Switzerland”. But Nepal's complex mix of ethnic groups defies geographical division. Resentments kept in check by the monarchy and then civil war are already re-emerging.

While optimists hope Nepal will become a Himalayan Switzerland, a gloomier assessment, from the American ambassador, James Moriarty, compared the country to Russia between February and October 1917. The Maoists, critics say, have not stopped recruiting fighters. According to Subodh Pyakurel, who runs INSEC, a human-rights group, they have abducted more than 300 people since April, and extortion is rampant. Prachanda himself has threatened an “October Revolution” if talks with the parties fail. The best hope, in the judgment of many dealing with him, is that, given a choice, he would prefer to keep talking than resume fighting.

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Politics in Malaysia

Anwar's return

Aug 24th 2006 | KUALA LUMPUR
From The Economist print edition

The government's crisis, the opposition's opportunity

MALAYSIA'S opposition and much of the outside world saw Anwar Ibrahim as a political prisoner for the almost six years he spent in jail, until his release in 2004. Mr Anwar had been convicted on dubious charges of sodomy (a crime in Malaysia) but most analysts reckoned his real offence had been to present a challenge to the then prime minister, Mahathir Mohamad, whose deputy he had been. The conviction was overturned after Mr Mahathir's retirement and Mr Anwar went to teach at an American university. But now he is back home and on the campaign trail, at a time of great tension in Malaysian politics and with an election perhaps only a year or so away.

In recent months, the ruling United Malays National Organisation (UMNO) has been convulsed by the barrage of attacks Mr Mahathir has launched on the man he chose to succeed him as prime minister, Abdullah Badawi. Mr Mahathir accuses Mr Badawi of being weak, hints at graft in government circles and lambasts his successor for ditching some of his pet projects. Earlier this month Mr Mahathir sent letters to millions of UMNO members, accusing the leadership of obstructing him from speaking at party meetings. Mr Badawi's officials claim Mr Mahathir is plotting to topple the prime minister.

Could the government's crisis be the opposition's, and Mr Anwar's, opportunity? Mr Badawi won the last election, in 2004, by a landslide, partly by promising many of the political and economic reforms that Mr Anwar had called for from his jail cell. Little progress has been made on these, though Mr Badawi has taken the brave step of cutting fuel subsidies. In May's elections in the state of Sarawak, a stronghold of the UMNO-led governing coalition, opposition parties won eight of the 71 seats, up from just one last time.

Mr Anwar is touring the country, promoting his multiracial People's Justice Party, Keadilan. At a press conference on August 24th he claimed Malaysia's electoral rolls were riddled with fraud, giving the example of a tiny shack found to have 142 registered voters. Four days earlier, defying police attempts to ban it, he spoke to a rally of several thousand supporters in Kuala Lumpur. Mr Anwar asks many of the same questions Mr Mahathir poses about the government's competence and honesty. Unlike Mr Mahathir, he also attacks Malaysia's positive-discrimination policies for ethnic Malays.

To get anywhere, Mr Anwar must unite a disparate opposition. His party is small and largely Kuala Lumpur-based. It is led, officially, by Mr Anwar's wife, Wan Azizah, while he awaits the expiry of a ban on political office (on another dubious conviction, for corruption). The two main opposition groups, the Islamic Party of Malaysia (PAS, mainly Malay) and the Democratic Action Party (the DAP, mainly Chinese), distrust each other. Mr Anwar's attempts to get all three parties to agree a minimal common platform open him to the charge of trying to be all things to all people. Others fear that he is a dangerous opportunist, not above dabbling with Islamic extremism to satisfy his ambitions.

In any case, he has a huge mountain to climb. In the 2004 election the opposition got only 20 seats to the ruling coalition's 198. But Mr Anwar thinks that victory is possible. “We just have to work hard,” he says. A good showing at the next election could see the ruling coalition start to disintegrate, reckons Steven Gan, editor of *Malaysiakini*, a brave online newspaper.

While hoping that Mr Anwar will stay in opposition and build bridges between Malays and non-Malays, P. Ramasamy, a political scientist linked to the DAP, says Mr Anwar's best chance of becoming prime minister is to rejoin UMNO. If Mr Mahathir's attacks continue, Mr Badawi just might invite Mr Anwar back, as a more palatable way of shoring up his support than appeasing Mr Mahathir. Mr Anwar still has friends in his old party—but also enemies, especially those angling to be Mr Badawi's eventual successor. Mr Anwar insists that the question of his rejoining an “obsolete” UMNO “does not arise”. He notes, though,

that it is unwise to preclude any possibility in politics.

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India's pay commission

Pop goes the weasel

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Oh to be a civil servant

TO THE outrage of a few, and the surprise of none, India's cabinet last week awarded its parliamentarians a hefty pay rise. The government justified it by arguing that India's MPs are among the lowest-paid in the world. It was not clear whether this took account of the bewildering range of perks they enjoy. It certainly ignores the other sources of income some tap.

At least, at an overall cost to the exchequer of 600m rupees ($13m), the MPs' pay rise does not cost too much. Many worry that it will be hard to say the same about the recommendations of the Sixth Pay Commission, whose formation the cabinet approved last month. It will report in early 2008 on the pay and conditions of 4.5m central-government civil servants. A further 7.5m working for state governments are likely to reap any benefits as well.

India is booming, and private-sector wages are soaring. So senior civil servants are justified in feeling left behind. However, the experience of the Fifth Pay Commission (5PC), implemented in 1997, gives grounds for alarm. This was, according to the World Bank, “the single largest adverse shock” to the government's finances. Shankar Acharya, a former government economic adviser, reckons employee compensation (including pensions) rose from 1.6% of GDP in 1997 to 2.3% in 2000 for the central government, and from 3.8% to 4.7% for the states. The budget deficit soared, to around 10% of GDP if the deficits of the state governments were added in.

Besides recommending pay increases, the 5PC suggested that the size of the civil service be cut by some 30% and that 350,000 unfilled posts be abolished. To any visitor to a government ministry in India this makes sense. There are strikingly large numbers of people in attendance on senior officials, apparently attending but doing little else. However, this part of the 5PC's package was ditched, under pressure from trade unions and vote-seeking politicians.

The government's finances appear to be improving. But, as Mr Acharya has pointed out, in the last fiscal year, ending in March, it moved into a primary deficit (ie, before interest payments), and interest rates have begun to climb again. No matter. With the next general elections due in 2009, the civil service is worth keeping happy.

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China

Jiang stirs again

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AP

China's former leader is not forgotten, and not quite gone

ON LEAVING the last of his posts in 2004, Jiang Zemin, China's former president, could point to two big achievements. First, he shepherded China through 15 years of rapid economic growth without sacrificing stability, and for that he must share the plaudits with many colleagues. But the credit for his second achievement, the first orderly transfer of power in China's Communist era, goes to him alone. Or it would, were it not for the awkward theory, held by many analysts, that he was more or less forced to quit.

Now, after keeping fairly quiet for the past two years, Mr Jiang has again stepped into the spotlight with a pair of new publications. One work is a travelogue documenting the many official overseas trips he took. The other is a three-volume set of his “Selected Works”, which went on sale on August 10th, a week before his 80th birthday. Its release puts him in the company of Deng Xiaoping and Mao Zedong as a leader deemed worthy of the honour. State media urged careful study of the opus and carried gushing, if improbable, reports of frenzied queues at bookstores as far afield as Tibet.

All the fuss could simply be a way for the new president, Hu Jintao, to heap praise on the old man as he prods him deeper into retirement. However Mr Jiang's re-appearance comes at a time when machinations over the next leadership change are just getting under way. China is due to hold its 17th Communist Party Congress late next year. Mr Hu would not be expected to step down until the following one, in 2012, but the 2007 congress is where the party will begin the work of anointing a successor. If Mr Jiang has any hopes of helping his political allies, and hence of prolonging his own influence, this would be the time to re-assert himself. But if he also wishes to be thought of as China's first modern leader to retire gracefully, he needs to tread carefully.

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Green power in South-East Asia

Fuels rush in

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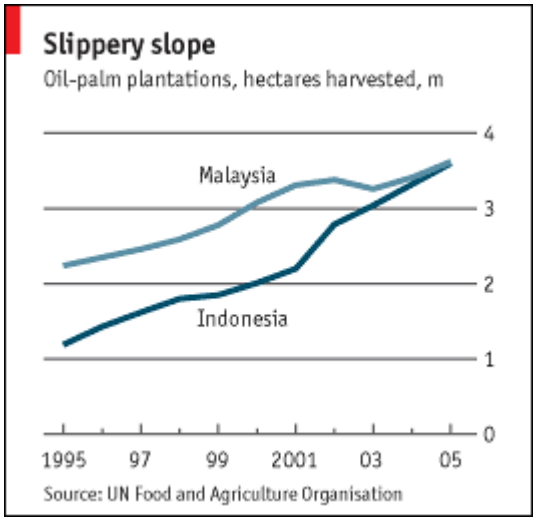
From The Economist print edition

When diesel grows on trees



THE fruit of the oil-palm tree, *Elaeis guineensis*, is wonderfully versatile. Oil squeezed from it goes into everything from biscuits to shampoo. Surging global demand has led Malaysia and Indonesia, which produce most of the world's palm oil, to plant ever greater areas (see chart), reducing the acreage of other plantation crops such as rubber and cocoa. Now, with fossil-fuel oil above $70 a barrel, the two countries and their neighbours are getting excited about another lucrative use for palm oil: making “biodiesel”, supposedly a greener and cheaper alternative for vehicles and generators.

Plant-derived fuels are nothing new: when Rudolf Diesel demonstrated his new engine at the Paris World's Fair in 1900, it ran on peanut oil. Brazil has long been distilling biofuel from sugarcane to reduce its need for fossil-fuel petrol. For South-East Asia, with its huge scope for producing plant oils, it is an idea whose time has come. On August 16th President Susilo Bambang Yudhoyono of Indonesia promised farmers 1 trillion rupiah ($110m) to help them plant oil palms and other biofuel crops. Malaysia has approved 52 new biodiesel processing plants and, from October, will mix 5% biodiesel into the fossil-fuel diesel sold at its pumps, increasing the share eventually to at least 20%. Japan and members of the European Union are already placing orders for Malaysian biodiesel. Thailand, Myanmar and the Philippines are also planning big biofuels plantations. Singapore has no land for plantations but intends to be a big refiner of its neighbours' plant oils.

Besides reducing fossil-fuel dependence and boosting trade balances, biofuels have another advantage: they create lots of jobs. Indonesia's palm-oil industry already directly employs about 1.5m people and Mr Yudhoyono hopes it will create work for millions more. Of course, using palm oil and vegetable oils to make fuel will become uneconomic if the price of fossil fuels falls. Ralph Sims, a researcher at the International Energy Agency, estimates this would happen if world oil prices fell below about $50 a barrel.

There are other potential catches. Oil palms take several years to start bearing fruit. In the meantime, the rising demand for biofuels is pushing up the price of palm oil and the other edible oils with which it is interchangeable, making food and cooking oil more expensive for the poor. A Shell executive in Singapore last month went so far as to argue that it was “morally inappropriate” to turn food crops into fuel while people are still starving. A convenient exaggeration—but, clearly, the consequences of the switch to biofuels need to be carefully thought out.

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Iran

The extraordinary revival of the Islamic Republic

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AFP

Despite its controversial nuclear ambitions, Iran under its bellicose president looks exceptionally buoyant as it proclaims itself a leading power in the region

WHICH of Iran's clerical leaders does not recall feeling jittery after President George Bush included the Islamic Republic in his “axis of evil” speech in 2002? An iron-hearted few, is the likely answer. Coming at a time when Iran's own politics was sapped by rivalry between reformists and conservatives, and hot on the heels of the American invasion of neighbouring Afghanistan, that speech was interpreted by many Iranians as a signal that America intended to topple the ruling theocracy. This conviction hardened after America's seemingly effortless dislodging of another neighbour, Saddam Hussein. Indeed, during the invasion of Iraq, Iran put out feelers to explore the possibility of detente.

A lot has changed. Just as America then felt strong enough to spurn Iran's overture, the Iranians now seem to have rejected incentives that the Americans and others proffered in order to tempt them to give up their ambition to become industrial producers of nuclear fuel. This ability would be useful not only for running power plants (which is all Iran says it wants to do) but also for building a nuclear bomb (which is what America, Israel and many others say it wants to do).

On August 22nd, in a written response to a package of incentives offered by America, Russia, China, Britain, France and Germany, the Iranians confirmed that they would not suspend their uranium-enrichment programme by the end of this month, as UN Security Council Resolution 1696 had demanded. Unless Iran has a quick change of heart or the six powers break ranks, it is likely that the Security Council will meet in early October to pass a second resolution imposing sanctions.

For all that, nerves in Tehran do not seem to be jangling. On the contrary, the Iranians are (from an American point of view) infuriatingly chipper. Ayatollah Ali Khamenei, the country's supreme leader, confidently expects Iran to receive “the sweet fruits” of its nuclear efforts soon.

Iran's self-confidence is not without logic. If they come, sanctions are likely to be confined, at least at first, to restrictions on some technical purchases, the freezing of assets and travel restrictions for senior officials. Russia and China, veto-wielding members of the Security Council, may reject measures that jeopardise their strong commercial ties; it was to woo these wobblers that Iran, in its communiqué of August 22nd, left open the possibility that it might, in the course of the negotiations it has proposed, consider suspending enrichment after all.

But such diplomatic nuances do not fully explain the mood of exuberant bellicosity that nowadays fills the speeches of senior clerics, the prayer halls of the voluntary Islamist militia known as the *basij*, and even the conversation of some ordinary Iranians who, until recently, paraded their disdain for politics. Two things have happened to make Iran's moribund Islamic revolution seem dynamic and alive.

The first is last year's election of a hardline conservative, Mahmoud Ahmadinejad (pictured above), as president, and the eclipse of the reformists from public life. Iranian politics is still full of divisions, but these no longer threaten, as they did, the state's ability to function.

The second is America's attempt to reshape the Middle East. The removal of the fiercely Sunni Taliban has allowed Iran to form valuable alliances with its fellow Shias in Afghanistan. Thanks to America's reorganisation of Iraq in favour of its Shia majority and the Islamic Republic's successful cultivation of the new elite there, Iran has a degree of influence to its west that it has not enjoyed since it lost its Mesopotamian possessions in the 17th century.

Finally, the rise of Israeli-Muslim tensions and the Bush administration's support for Israel's policies towards the Palestinians and Lebanon have given Iran a fine opportunity to fish in troubled Mediterranean waters. In the recent war, when Iran's own creation, Hizbullah, withstood a month-long assault at the hands of mighty Israel, the Iranians shed their perennial outsider status; many Sunni Arabs found themselves praising the Shia Persians for showing mettle that in their view was deplorably lacking in their own, more pro-American, governments.

In Tehran, one sycophantic newspaper has taken to referring to Mr Khamenei as the Islamic world's leader. Not bad for an undistinguished Shia theologian whose sect accounts for no more than 15% of the world's Muslims.

Although Iranian officials cling, at least in public, to the fiction that Iran is not a major supplier of Hizbullah's arsenal of rockets and missiles, they bask in the militia's success. During the fighting, Ali Akbar Mohtashamipour, who helped found Hizbullah after Israel invaded Lebanon in 1982, described the group as the “spiritual offspring” of the late Ayatollah Ruhollah Khomeini, who led Iran's 1979 revolution, and boasted that its fighters had learned much by fighting alongside Iranians in the Iran-Iraq war of the 1980s.

Behind Iran's bravado lies an awareness that the more America gets entangled in the violent politics of the Middle East, the more vulnerable it becomes. When, earlier this month, America's ambassador in Iraq suggested that Iran's support for Shia militants in that country may be linked to American support for Israel and to the Bush administration's efforts to stymie Iran's nuclear ambitions, it was a rare American admission of a connection that Iran has consistently sought to exploit. Should America or Israel attack Iran's nuclear facilities, Iran would respond on several fronts. According to Iran's army chief, recent military manoeuvres spread across 16 provinces were designed to thwart the “evil intentions of the enemy”.

Meanwhile, at home, Iranians live in a state of semi-crisis that suits the authoritarians. Those pro-democracy activists who survived the reformists' meltdown are apprehensive and inert. The recent death of a jailed student activist who was on hunger strike, and the incarceration of Ramin Jahanbegloo, a secular philosopher whose “confessions” may soon be broadcast on state television, attest to the waning influence of the West, particularly the EU, since the election of Mr Ahmadinejad led to a deterioration in relations.

The judiciary may be gearing up for fresh assaults. An article in an establishment newspaper accused an array of prominent cultural figures, including a caricaturist, a sculptor, a conductor and a painter, of teaming up with Mr Jahanbegloo and another philosopher to plot a “velvet revolution”. With the media shackled and fearful, a lot of incidents go unreported; self-censorship is the norm.

With its regional prestige higher than ever and its coffers bulging with oil receipts, hubris alone may seem to threaten Iran's good fortune. For all that, the stimuli for Iran's striking revival are mostly external; inside the country, economic mismanagement, human-rights abuses and resentment among the large non-Persian minority are as vivid as ever. For most of Iran's sad reformers, it is Mr Bush's blunders, not the clergy's inspired leadership, that have put Iran in its present strong position. When he is gone and if the oil price were to dive, it could be very different.

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Lebanon

A dangerously edgy peace

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The ceasefire is still holding—but for how long?

NEARLY a fortnight after Israel and Hizbullah agreed to cease fire, the guns are largely silent but there is plenty of scope for the conflict to resume. The UN's planned force of up to 15,000 peacekeepers to bolster its puny contingent already in southern Lebanon may take months to reach its hoped-for strength. The Israelis are continuing their air-and-sea blockade of Beirut; the sounds of their aircraft still haunt the skies above the capital's southern suburbs, the urban core of Hizbullah's Shia constituency. Israel says that, under the UN Security Council's Resolution 1701 passed on August 11th, it will leave only once a beefed-up UN force is in place.

Meanwhile, though so far desisting from sending its rockets into Israel or attacking Israeli troops in Lebanon, Hizbullah shows not the slightest inclination to disarm, as the same resolution says it must. Nor would any UN force insist, by threat of arms, that it do so. To make matters edgier, the fragile coalition government, which includes two Hizbullah representatives, is at odds over how to proceed.

Still, the mood is very different from a fortnight ago, when hundreds of Lebanese civilians were being killed every week in the Israeli onslaught. Beirut's middle-class party-goers are gradually returning to the bars of the most fashionable district; Beirut's fanciest shopping street is once again clogged with traffic. Yet most Beirutis are wary of venturing out or returning from their summer retreats in the hills.

So far, the ceasefire has held, but only just. The biggest threat to it was an Israeli commando raid on a village near Baalbek, deep inside Lebanon, on August 19th, when an Israeli lieutenant-colonel and three

Hizbullah fighters were reported killed. The UN's head, Kofi Annan, condemned the operation for violating the ceasefire. The Israelis said they were trying to stem the flow of weapons to Hizbullah from Iran through Syria. They may also have been trying to kill or capture a Hizbullah leader, Muhammad Yazbek.

A day later, tension rose again when Israelis manning one of several outposts in southern Lebanon said they had shot and maybe killed three Hizbullah fighters. Two days later, an Israeli soldier died when a tank in Lebanon hit a mine.

Hizbullah may not be able to restrain itself in the face of further big Israeli attacks. Yet it has good reason to lie low. Though widely regarded, especially by Arabs in the region, as the victor in the month-long war, it has been hard hit and needs time to recoup its military losses, restock its weapons, bury its dead and plan its next move. It also knows that Lebanon's people, divided along sectarian lines, would hate the violence to resume. At least 1,300 of them, mostly civilians, died in the war. The government counts the economic costs in billions of dollars.

Even Hizbullah's own Shia constituents, many of whom have returned to their homes, are loth to back any action that could invite renewed attacks on their devastated villages. The party says it will abide by an agreement it endorsed in April 1996 whereby neither side would hit the other's civilians, but it is bound to attack Israeli troops in Lebanon if Israel, as is its wont, targets Hizbullah leaders.

Plainly, this precarious peace needs to be upheld by a large peacekeeping force to take over the buffer zone between Israel and the Litani river, some 20km (13 miles) north of the border, so letting Israel leave Lebanon altogether. It must also seek to stem the flow of arms through Syria to Hizbullah. The longer a beefed-up UN force takes to embed itself in the area, the higher the risk that fighting will resume.

The UN's special envoy to the region, Terje Roed Larsen, says the security vacuum may persist for two or even three months. The UN has been dismayed by France's change of mind. With the keen backing of President Jacques Chirac, for whom Lebanon is close to the heart, the French at first intimated that they could send 2,000 or so troops and lead the UN force. But with France's generals apparently unhappy with the UN mandate, the French government then offered merely to double its present contingent of 200 soldiers. Later this week there were hints that the French would, after all, send a lot more.

Avanti, then!

Italy is still set to replace France as the lead nation, with up to 3,000 troops. The UN is casting about for sturdy contributions from other European Union countries, especially those from the formerly communist east. It is also encouraging Muslim ones, such as Turkey, Indonesia and Bangladesh, to step forward, even though Israel has objected to countries (such as Indonesia) that refuse to recognise it.

Until a strengthened peacekeeping force takes up positions along the Syrian border and at Beirut's airport, Israel will keep up its air-and-sea blockade. Air traffic to date has been largely limited to humanitarian aid and official delegations, while only ships carrying relief supplies have been let into port, with Israel's permission. Syria, for its part, is loudly objecting to the UN's plan to monitor its border with Lebanon to try to staunch the flow of arms to Hizbullah.

Meanwhile, Lebanon's beleaguered government has struggled to match Hizbullah's impressive post-war relief and reconstruction efforts. The Islamists have handed out wads of cash, sometimes as much as $12,000 at a time, in crisp new notes to victims of the war whose homes were damaged or destroyed.

But such humanitarian achievements of Hizbullah, while welcomed especially by Lebanon's Shias, point up the country's divisions. In the run-up to the ceasefire, calls by ministers representing parliament's pro-Western majority to discuss (let alone demand) Hizbullah's disarmament enraged the Islamist party. Its two ministers threatened to walk out, taking sympathetic ministers with them.

Hizbullah still opposes many decisions taken by the majority of cabinet ministers, whom they deem too close to America. Lebanon's defence minister, Elias Murr, threatened harsh consequences for anyone (meaning especially Hizbullah) who violated the ceasefire. But it is unclear what action the fragile coalition government could take against a militia that is seen to have defeated the once-invincible Israeli army. Probably none yet—without the risk of triggering sectarian violence between the Lebanese themselves.

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Lebanon and regional diplomacy

Arab neighbours thinking ahead

Aug 24th 2006 | BEIRUT AND CAIRO
From The Economist print edition

The impasse in Lebanon may prompt Arabs to pep up their diplomatic efforts

AP

Cairenes cheering hard for Hizbullah

FIGHTING may have largely ceased on the ground in Lebanon, but a cloud of acrimony still fogs the region. The so-called Arab moderates—led by the governments of Egypt, Saudi Arabia and Jordan—had quietly counted on a swift Israeli victory, not only to cut Hizbullah down to size as a lesson to other radical Islamists but also to undermine Iran's regional ambitions. Now they and their backers are reeling under a wave of popular indignation at such perfidy and of enthusiasm for a return to armed opposition to Israel.

Egypt is a typical example. In the past month, say Egyptian newspapers, no fewer than 124 babies born in the city of Alexandria have been named Nasrallah. For good measure, one mother called her newborn twins Hassan and Nasrallah. The name of Hizbullah's chief also topped the list of the most popular political figures in Egypt, in a recent opinion poll, followed by two other bearded Islamists, Khaled Meshaal, the exiled leader of Hamas, the Palestinian movement, and Iran's president, Mahmoud Ahmadinejad. By way of contrast, when Gamal Mubarak, the Egyptian president's ambitious son, hitched a lift into Beirut airport with a highly publicised relief cargo from Cairo, text messages in Egypt's capital joked that he was “waging *jihad* in the cause of photography”.

Iraq's bloody civil war and Iran's nuclear plans still arouse qualms among Sunni Muslims, especially in countries with big Shia populations. Arch-conservatives give warning of a secret Shia determination to undermine Islam; one Saudi sheikh describes Hizbullah, which means the “party of God”, as the “party of Satan”. But for most Sunnis, Hizbullah's perceived triumph against Israel has largely cancelled fears of a Shia bogey. “It just shows that if we turn to Islam, we will win,” says a peasant in Fayoum, south of Cairo.

In fact, such mainstream Sunni groups as the Muslim Brotherhood have warmly embraced the Lebanese fighters as fellow strugglers against the hegemonistic West. Mehdi Akef, the Brothers' ageing head, said that if Arab leaders, who were “worse than Israelis”, did not happen to be co-religionists, they would have been killed.

Fahmy Huwaydi, a widely syndicated columnist with close ties to the Brotherhood, dismisses the supposed split between Sunnis and Shias as part of a plot to divide and rule Muslims. “Though this round of the Lebanon war blocked one part of this hellish plot,” writes Mr Huwaydi in the Egyptian daily, *al-Ahram*, “efforts have not subsided, by way of other openings and weak spots: now they want us to believe that the Shia are our enemy and Iran the source of danger, that it was Hizbullah, not Israel, that destroyed Lebanon, that the American administration is a Noah's ark that we must jump on or be drowned, and that George Bush is the awaited Mahdi.”

Yet while popular feeling has weakened pro-Western governments and made America politically toxic, it has yet to strengthen opposition forces aligned to the “rejectionist front” of Iran, Syria, Hamas and Hizbullah. For instance, Syria's leader, Bashar Assad, tried to exploit the mood by lashing out at fellow Arab leaders as “half men” with “half policies”. But his speech prompted a barrage of scathing criticism, not least from Lebanon's prime minister, Fouad Siniora, with numerous commentators noting that while Syria arms and lauds Hizbullah, its own border with Israel has been dead quiet since 1974. “They want to

fight Israel to the last Lebanese," quips a Beirut grocer.

More quietly, some moderate voices now speak of the need to draw lessons from Lebanon. The main one, they say, is not that Israel can be defeated by guerrillas inspired by faith, but rather that Israel can never impose peace on its own terms, by force of arms. This means that the region's unsettled questions, and particularly the question of Palestine, cannot be allowed to fester any longer.

Perhaps in fear of losing the argument to those who draw more adversarial lessons, moderate governments may be rousing from their long diplomatic torpor. The talk now in Arab chanceries is of a concerted push to bring the core Middle East issues to the top of the international agenda, either in the UN Security Council or at a peace conference such as the one in Madrid in 1991 that led to Israeli deals with Jordan and the Palestinians. One idea is to refloat the joint Arab offer to recognise Israel in exchange for its full withdrawal to pre-1967 borders, first made in 2002, which was allowed to sink by a hostile Israel and indifferent Bush administration.

Despite Mr Assad's bluster, even Syria appears to accept this logic. Amid signs of renewed international interest, including in Israel, in promoting a peace deal over the Israeli-occupied Golan heights, if only as a means to forestall Syrian sabotage of the Lebanon ceasefire, Syria has sharply toned down its rhetoric. "There is no longer a place in this region for the state of no war, no peace," its vice-president, Farouk Sharaa, was quoted as saying to the visiting Turkish foreign minister. Doubtless true, but it could go either way.

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Israel

Peace now with Syria?

Aug 24th 2006 | JERUSALEM
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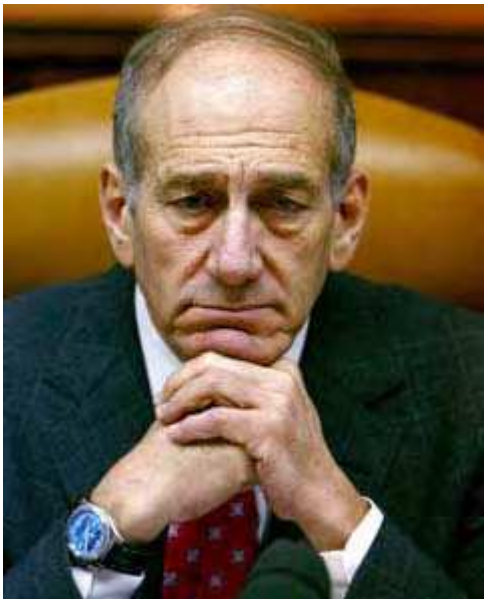
After the Lebanon war, none of Israel's choices looks promising

FROM time to time, when peace with the Palestinians has looked especially distant, Israel has toyed with having another go at a making a formal peace with Syria. Now seems another good moment.

Israel will not talk to the Islamists of Hamas, now running the Palestinian Authority, who despite saying they would accept a Palestinian state in the West Bank and Gaza still cannot bring themselves to renounce their claim to the rest of Palestine. In the absence of talks, Ehud Olmert's idea to leave much of the West Bank unilaterally, just as Israel left Gaza, looks dead after the Lebanon war: Israelis do not want the Palestinians left alone to build up an attack force like Hizbullah's. The fact that Mr Olmert never said he would pull the army out of the West Bank, only the settlers, has been lost in the noise.

Reuters



Olmert looking forward to the future

Meanwhile, as doubts grow in Israel about the UN-brokered ceasefire in Lebanon and the UN force meant to enforce it, many Israelis are becoming convinced that the only way to stop Hizbullah rearming, short of invading Lebanon again, is via Syria itself, the main supply route for those arms and probably a source too. What is more, Hamas's top leadership, based in Damascus, has been preventing the more moderate Hamas leaders in Gaza and the West Bank from reaching compromises with other Palestinian parties that could eventually reopen contacts with Israel. So cosying up to Syria's president, Bashar Assad, could isolate both Hamas and Hizbullah—as well as Iran, Hizbullah's chief sponsor and Israel's chief enemy.

Nice, in theory

This has enticed a handful of Israeli politicians, including Avi Dichter, a former head of the internal security service and a minister in Mr Olmert's inner circle, to speak out in favour. But that may be mere political jockeying, as Mr Olmert's government teeters under the weight of post-war recrimination and a string of scandals. Government officials, in any event, downplay the idea of a Syrian deal.

It is hard to see it happening soon. First, Syria's price has been clear since the 1990s, when the two countries got close to a deal: Israel must return the Golan heights, occupied since 1967. This large area is strategically important, because of its height, location and plentiful water; thousands of Israelis have lived there for decades. Having seemed to fail against Hizbullah in Lebanon, Israel would be negotiating from a position of weakness. Before giving up land, it feels it has to look strong.

Second, Syria itself may not be ready. Though a fiery speech by Mr Assad last week warned Israel of danger if it did not make peace, it is arguable that Syria has more to lose than to gain, if peace reduces its leverage over America in Iraq and over Israel through its influence on Hamas and Hizbullah. Moreover, peace between Israel and Syria would need backing from America, whose attitude to Mr Assad's regime has been to isolate and punish it for its suspected hand in killing Lebanon's former prime minister, Rafik Hariri, and for its support of America's enemies in Iraq and Israel's in the West Bank and Gaza.

What about a gradual, backdoor approach to Syria, through third parties? Talking to Syria, says Nadim Shehadi of Britain's Royal Institute of International Affairs, does not mean a peace treaty right away. “Syria would gain 90% of what it wants, just by being engaged,” he says. But in the end, if Israel wants to remove Hizbullah's threat, the only alternative to peace with Syria may be war; and some Israeli pundits agree. Indeed, the Lebanon fracas has strengthened Israel's right, which thinks the mistake was not in going to war but in not going to war harder.

Palestinian leaders, however, take the prospect of Israeli-Syrian talks seriously—and many are worried. “We may become unimportant if Israel opens talks with Syria,” says a reformist member of Fatah, the party of Mahmoud Abbas, the Palestinian president. That risk, coupled with the Palestinians' growing suffering under a world aid boycott and the fear that Israel will make up for its drubbing in Lebanon by intensifying an already fierce military offensive in Gaza, seems to have jolted Mr Abbas. He has revived talks with Ismail Haniyeh, the Hamas prime minister, on a governing coalition of Fatah and Hamas that might be more palatable to foreign donors. There are also back-channel talks between Hamas and an Israeli rabbi, Menachem Froman, on a ceasefire between Israeli forces and Palestinian militants, and on exchanging a captured Israeli soldier for Palestinian prisoners in Israel.

But the obstacles are legion. On the Palestinian side they include Hamas's refusal to recognise Israel explicitly, tension between Hamas's domestic and Damascus-based leaders, and its waning authority over other armed groups. A unity government, even it were formed (amid lots of internal disputes), may not change the attitude of many outside Palestine. Israel, meanwhile, is refusing to treat Hamas's overtures as steps towards recognition, as it treated similar steps by Fatah two decades ago. Looking weak after Lebanon, it does not want to look weaker by agreeing to exchange prisoners.

Some think Israel may take a new tack with Hamas, encouraging moderates in the movement as it did with Fatah, rather than trying to isolate it, which has strengthened the extremists. Others think Israel will take its failure in Lebanon as a sign that it must recover its army's deterrent power and flex its muscles. Much will depend on how Mr Olmert rides out the turbulence in the weeks ahead.

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Congo

The results come in with a bang

Aug 24th 2006 | KINSHASA
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Gun battles in the capital do not augur well for the next round of voting

Get article background

AFP

HE HAD to don a flak jacket and be ferried to the state television's studios in an armoured personnel carrier, but Father Apollinaire Malu Malu, the head of Congo's election commission, did eventually manage to announce the country's election results on August 20th, three weeks after polling. As expected, the incumbent president, Joseph Kabila, was far ahead of his rivals. But his 44.8% of the vote was not enough to win in the first round, so he will have to face Jean-Pierre Bemba, a former Ugandan-backed rebel and one of Congo's four current vice-presidents, in a run-off in October.

The results, however, became something of a sideshow as running gun battles took over the heart of Congo's capital for the following two days. The dispute started as a stand-off between Mr Bemba and Mr Kabila's bodyguards at the party headquarters of the president's bitter rival, but escalated into a battle between their private armies. Congo's police proved impotent as Mr Kabila's presidential guard brought tanks onto the streets and soldiers armed with automatic weapons and rocket-propelled grenades fought Mr Bemba's red-bandana-clad men.

Both sides blamed the other for the fighting. The former rebel's men say Mr Kabila was angry at failing to win the election outright; the presidency accuses Mr Bemba of provoking the violence by bringing armed men into his riverside house, just down the road from Mr Kabila's office.

Mr Kabila seems to have come out of it all looking worse. At one point, his men attacked Mr Bemba's house while the head of the UN peacekeeping mission and most of Kinshasa's diplomatic corps were inside trying to fix a ceasefire. Only after a short truce was agreed were the envoys packed into armoured UN vehicles and taken to safety. No one was betting on how long another truce, brokered on August 22nd, would hold. The two leaders were yet to meet but their commanders had agreed to withdraw their troops and life in the capital was returning to normal.

Much damage, however, has been done. Several people were killed and many wounded. Fearing more violence, the European Union, which together with the UN did most to organise the election, has flown in at least 200 German and Dutch reinforcements. They may be needed, though probably not in Kinshasa's leafy diplomatic district where the fighting took place, so much as in poorer districts where rival supporters will be fired up by commentaries from television stations belonging to the two candidates.

There are already reports of attacks on Mr Kabila's supporters and fellow easterners. The poll on July 30th, the culmination of a three-year transition to democracy after a war that claimed up to 4m lives, passed off relatively well. But voting was largely on ethnic and linguistic lines, with the Swahili-speaking east voting for Mr Kabila and the Lingala-speaking west largely rejecting him. The two front-runners will now try to secure the support of those who backed candidates now eliminated, notably the veteran Antoine Gizenga, who came third with 13% of the vote.

The hope is that this latest battle has not doomed the entire election. But many fear that more fighting is to come, even if Messrs Kabila and Bemba do agree to try to keep their rivalry peaceful.

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South Africa

Beetroot but no blushes

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From The Economist print edition

More controversy over AIDS policy

Get article background

THE South African government must look forward to international AIDS conferences much as the Sudanese await the publication of human-rights reports and the Nigerians corruption inquiries. They know they are in for trouble—and last weekend's AIDS gathering in Toronto duly provided it.

Stephen Lewis, the UN's envoy for combating the disease in Africa, accused the government of embracing theories worthy of a “lunatic fringe”, promoting bogus homemade remedies and being “obtuse, dilatory and negligent” in distributing anti-retroviral drugs (ARVs). As if to bear out his point, the South Africans displayed such goodies as lemons, garlic and beetroot on their official stand, seeming to present them as alternatives in the prevention and treatment of AIDS, with the condoms and ARVs also on display. Barack Obama, a black American senator, accused South Africa's health minister of persisting in giving out confusing and dangerous messages about AIDS.

The South African government reacted with anger, pointing to its comprehensive plan to deal with the disease, including one of the largest treatment programmes in the world. Over 250,000 people get ARVs, most of them from government hospitals or clinics.

But that is not enough in a country where 5.5m people are thought to be infected with the virus; 700,000 need treatment now. Prevention efforts have not done much to reduce the number of new infections. About 800 people die of AIDS every day; life expectancy is down from 63 in 1991 to under 50 today. Not all public clinics have drugs, and long waiting-lists for treatment are common.

Most people can forgive South Africa a shortage of doctors, nurses and pharmacists in the public-health services trying to fight the disease: this is a problem throughout Africa. But the government's long-standing lack of conviction about the efficacy of drugs still causes dismay. It resisted providing ARVs altogether until the courts forced its hand a few years ago. The health minister, Dr Manto Tshabalala-Msimang, has been repeatedly criticised for exaggerating their side-effects and for over-emphasising the benefits of nutrition and traditional medicine; her nickname is Dr Beetroot. Doctors say many people are afraid to take ARVs, even if they can get them, and become easy victims of quacks.

The medical consensus is that a balanced and healthy diet, not so common in Africa, is essential to fight AIDS, but as a complement to, not a substitute for, ARVs. The Treatment Action Campaign, South Africa's foremost AIDS activist group, took to the streets this week, calling for the health minister to resign. But President Thabo Mbeki, who has been in purdah on the topic for several years after questioning whether HIV really did cause AIDS, seems happy to keep her. Presumably, he still agrees with her.

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The European Union in the world

Abroad be dangers

Aug 24th 2006 | BRUSSELS, PARIS AND ROME
From The Economist print edition

Doubts over sending troops to Lebanon say much about the European Union's aspirations to play a bigger role in the world

FIFTEEN years ago, an obscure European foreign minister memorably and fatuously declared, as fighting broke out in the Balkans, that “the hour of Europe has come.” The dream of Jacques Poos of Luxembourg, which at the time held the rotating presidency of the European Union, was swiftly shattered, as it became tragically clear that the EU on its own was quite unable to end the war.

Yet the substance of a common European foreign and defence policy, including the use of force abroad, has become more evident since then. This week EU members were meeting to co-ordinate plans to send troops to join a UN peacekeeping force in Lebanon. It was agreed that a big European contribution was essential, and most people looked to France to take the lead. But even though they had helped to write the UN resolution that ended the fighting, the French proved reluctant.

At first France seemed ready to send some 2,000 troops, to add to the 200 it has in the existing UN force (see article). Jacques Chirac, the French president, made much of his country's historic ties to Lebanon, and of his own friendship with Rafik Hariri, the former prime minister who was assassinated, probably by Syria, in February 2005. He promised the UN that a French general would retain command of the force. But worries about the rules of engagement then cut France's offer to 200 extra troops (though by mid-week the French were hinting that they might send more). The French have painful memories of Bosnia in the 1990s, when 84 soldiers were killed; and, even more, of Lebanon in 1983, when 58 French paratroopers were killed in an attack, probably by Hizbullah, on their base.

Even as France has been holding back, Italy has been stepping forward. This week the Italians volunteered to send as many as 3,000 soldiers. Israel promptly invited the Italians to assume command of the peacekeeping force instead of the French. Some observers claim that Italy has better credentials as a disinterested broker. And the new centre-left government of Romano Prodi is eager to disprove claims by Silvio Berlusconi that only his centre-right government could raise Italy's international profile. Yet the Italians have since started to have their own doubts, demanding that other EU members step forward with firmer offers of troops of their own, and fretting over the risk of possible clashes with Israeli forces.

The mission in Lebanon is run by the UN, not the EU. But it has been discussed collectively by EU foreign ministers, who decided to meet Kofi Annan, the UN secretary-general, in Brussels. And in recent years the EU has mounted several peacekeeping operations of its own. The border between Ukraine and the breakaway Moldovan region of Transdniestria is patrolled by EU forces, for example. Farther away, in Indonesia, EU troops are monitoring the peace in Aceh. And EU soldiers were sent to supervise Congo's recent election; this week, more troops flew into Kinshasa.

Missions such as these are a visible expression of Europe's eagerness to play a bigger role in the world. In the past it has been mainly Britain and France that have launched military efforts, often reflecting links with historic colonies (eg, Britain in Sierra Leone, France in Côte d'Ivoire). Until 2003, the EU as such had not mounted any foreign operations. But over the past three years, it has put as many as 14 into the field, turning Europe into one of the world's main purveyors of peacekeeping. If the ability to project force is now the hallmark of an independent foreign policy, the EU could be said, at last, to be getting a bit more bloody, bold and resolute.

It might seem strange that a body such as the EU, with no army, no foreign minister and no diplomatic service, should seek new influence abroad. And even stranger that anyone should heed a continent with a shrinking share of world population and output, plenty of problems with Muslim extremists and strained relations with two big neighbours, Turkey and Russia. Yet even before Lebanon, hardly a day seemed to pass without somebody, somewhere calling for a bigger European military presence abroad. And, although precious little has been heard of the EU's plans of a few years back to create a 60,000-strong rapid-reaction force, that presence has slowly and inexorably been growing.

The EU has been increasingly active on the diplomatic front as well. Over the past few years, Britain, France and Germany have led the world's efforts to persuade Iran to give up its nuclear ambitions. Worries over energy have prompted fitful efforts to create a common front in dealing with Russia. Indeed, foreign policy, according to the president of the European Commission, José Manuel Barroso, is one of the few areas where the EU, as opposed to its individual members, is becoming more important. So what should one make of Europe's new assertiveness?

Growing pains

Europe's foreign policy is too young to be judged by its record. Until the end of the cold war, there was none to speak of. Only in the Amsterdam treaty of 1997 did the EU formally set up a common foreign and security policy, with a high representative (Javier Solana) to conduct it. The EU deployed policemen abroad for the first time in January 2003 (in Bosnia). Its first soldiers went in three months later, in Macedonia.

One result of being at this chrysalis stage is that EU foreign policy suffers from growing pains. For a start, the policymaking apparatus is incoherent. One institution is in charge of policy (Mr Solana, in the Council of Ministers, reports to national governments). Another (the European Commission, the EU's bureaucracy) controls the purse-strings. One of the few good bits of the ill-fated EU constitution would have resolved this bifurcation of responsibilities by making Mr Solana the EU's foreign minister and giving him a seat in the commission—but since the constitution crashed and burnt last year, that change is no longer on the agenda.

Besides its institutional constipation, Europe's foreign policy has been bedevilled by policy divisions. The most glaring was over Iraq in 2002-03, with Britain, Spain, Italy and several new EU members backing the war but France, Germany, Belgium and others vociferously against it. National governments have differed over Israel's war on Hizbullah in Lebanon too. Italy, France and Germany are now following their own courses over sending troops to Lebanon. Britain has dissented from plans for an EU military-planning staff distinct from NATO's, and also worried openly that an EU rapid-reaction force might undermine NATO. Germany and France have repeatedly gone their own way over policy towards Russia, just as Britain has with the United States.

Yet on the whole, most European countries have supported most areas of EU foreign policy since Iraq. They agreed to expand the NATO mission in Afghanistan, for example. France, Britain and Germany have maintained a united front on Iran. On balance, Europeans have agreed more than they have disagreed—even if differences over Iraq and the rest of the Middle East have been more spectacular.

The EU is not about to emerge as the great power that some have hankered after. Mr Chirac once talked grandly of Europe “balancing” the United States, and of the EU being one pole in a multipolar world.

Those who argue that the EU needs a foreign policy because small and medium-sized countries can exert influence only by banding together are also, implicitly, measuring it against bigger powers.

But there are more plausible objectives to play for than trying, ineffectually, to set up a rival pole to America. Mr Solana's watchwords are “effective multilateralism”. This is shorthand for trying to create a world in which countries bind themselves into a network of laws, obligations and institutions—a world rather like the EU itself, in fact.

Effective multilateralism should by now have a certain credibility. When Europeans give advice on, say, peacemaking or institution-building, they know what they are talking about: bitter former enemies now work together in the EU through common institutions. In some places, the EU can also play a useful security role. Rupert Smith, a former British general, argues that conflict resolution is increasingly about the early and precise deployment of small forces to defuse trouble, rather than the army-smashing application of overwhelming might. The model is Macedonia, where the EU headed off ethnic strife by dispatching a small force, and followed up with offers of help—and, ultimately, with the carrot of EU membership.

Moreover, although the record is limited, what evidence there is suggests that effective multilateralism is something the EU can actually deliver. Its single biggest foreign-policy success of recent years is eastward expansion—though that is now threatened by the spread of “enlargement fatigue” in some countries, and specifically by hostility to Turkey's accession. By and large peacekeeping missions have worked too, even in the Balkans.

But two doubts have emerged during the EU's foreign-policy infancy. First, the policymaking and institutional apparatus must be streamlined. That will be harder now that the EU constitution is no more. But some diplomats are considering improvements that could be made without treaty amendment. Downgrading the foreign-policy role of the EU's six-monthly rotating presidency would be one idea. More effort by foreign ministers to work out common strategies would be another.

That might also help to allay the second doubt: just how much popular and political support there is for a collective foreign policy—and for backing it up with hard military force, as well as soft power. Europeans often tell pollsters that they want a common foreign and security policy. They like many aspects of effective multilateralism—foreign aid or the Kyoto climate-change treaty, for instance. But as the worries over sending troops to Lebanon have shown, many remain uncomfortable about the deployment of hard power. Peacekeeping operations outside Europe often have to be dressed up as humanitarian missions, and may even be dispatched in somebody else's name.

Indeed, most EU peacekeeping missions have been labelled as supporting UN or NATO operations. This has not stopped arguments. The Dutch have traditionally been strong NATO supporters, yet their government agonised for weeks about joining NATO troops in Afghanistan. So did the Italians. Now the French are leading worriers about the UN operation in Lebanon. If the Europeans cannot quickly resolve such concerns, it will not be only the Middle East that suffers—it will be the EU's entire foreign-policy credibility.

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Terrorism in Germany

Immune no more

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Germany finds that nowhere in the West is safe from Islamist terrorism

ASK Germans what worries them most and—at least to a foreigner—the answers may be a surprise. According to one recent poll, fears about such things as cuts in social benefits or the loss of jobs make up the top ten threats. The possibility of a terrorist attack comes in only 14th, with 25% mentioning it—even fewer than those who are most concerned by global warming and climate change (38%).

Terrorism seems, however, sure to leap up the list now, after it emerged that the country had narrowly escaped its first big Islamist terrorist attacks. Last weekend the police identified two suspects, arresting one in Kiel, in northern Germany. At the end of July, this suspect, a 21-year-old Lebanese student, and another Lebanese man who fled to Beirut but later gave himself up, are alleged to have placed two suitcases, each containing a bomb, on regional trains. Fortunately, their makeshift workmanship (one gas cylinder, water bottles filled with gasoline as a detonator, an alarm clock) was so crude that the bombs failed to explode.

Predictably, the politicians are now outdoing each other with plans for how best to avert further terrorist attacks. Wolfgang Schäuble, the interior minister, has demanded that more security cameras be deployed and other electronic surveillance be stepped up. The arrest came after a tip-off from Lebanese intelligence, but the suspect was also caught on video camera dragging a suitcase containing a bomb along Cologne's main train station, as well as by a telephone tap. Others are calling for armed “train marshals” to patrol at least some of the thousands of trains that crisscross the country every day.

Yet Germany hardly needs another raft of anti-terrorism measures. In the wake of September 11th 2001, the police got nearly all they wanted, including access to financial and other personal data. The problem lies more with Germany's federal structure. There is no equivalent of America's FBI. Each of the country's constituent states, or *Länder*, has its own police organisation, which makes it harder not only to fight terrorism but also to develop joint techniques for doing so, and for exchanging information. For years, the states and the federal government have been talking of creating a “terrorism database”. But some states want this to include as many details as possible, whereas others, supported by privacy advocates, insist on limiting it only to basic data.

This points to another problem that may make fighting terrorism harder in Germany than elsewhere. Germans put a premium on the protection of their personal data. For instance, the use of data from the nationwide toll system for trucks to catch a suspect is widely considered as a giant leap towards an Orwellian state. Such a reaction is in part a response to the experience of the Third Reich and the Gestapo. But it is also the result of what is now known as the “leaden time” of the 1970s, when left-wing terrorism by the Red Army Faction and other groups led the government to overreach and overreact.

What the failed bombings, and the nationality of the suspects, demonstrate beyond doubt is that Germany can no longer rely on those factors that were thought to have shielded it from Islamist terrorism. These included its criticism of the Iraq war, a Muslim community mostly made up of relatively well-integrated Turks, good police work—and plain luck. Next time, the bombs may actually explode.

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Illegal immigration to Italy

Sunk

Aug 24th 2006 | ROME
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More boats, more drownings—and suspicions about Libya's role

HAD they died in terrorist attacks, it would have been front-page news. Last weekend some 79 people lost their lives in the southern Mediterranean. But these were migrants who drowned out of sight, trying to reach Europe aboard boats unfit for the purpose. Their deaths went almost unreported outside Italy.

In the early hours of August 19th, a ten-metre craft carrying some 120 migrants from the Maghreb and the Horn of Africa collided with an Italian navy corvette that had been sent to escort it to shore. Ten bodies were retrieved, but up to 40 people went missing. The next day, an Italian fishing vessel spotted a handful of survivors. They later told rescuers that 29 others had set off with them on the 300km (185 mile) journey from al-Zuwara on the Libyan coast to the Italian island of Lampedusa.

Such disasters seem inevitable given the recent upsurge in illegal migration by perilous sea crossings. In the first seven months of this year, more than 12,000 migrants from Africa have reached the Italian islands south of Sicily. This experience has been repeated elsewhere. Malta has seen a sharp increase in illegal immigrants. And more than 17,000 migrants have landed in the Canaries, most of them after long boat crossings from such places as Senegal.

Reuters

Catch of the day

In the Canaries, the rise reflects the efficiency with which the Spanish have stoppered previous migrant routes across the Strait of Gibraltar and through Spain's north African enclaves of Ceuta and Melilla. But in Italy a suspicion is growing that Colonel Muammar Qaddafi has had a hand in the jump in departures from Libya. He would not be the first African leader to see in illegal immigration an opportunity to exert leverage on rich Europeans.

Numerically, illegal migration across the Mediterranean is inconsequential. A study by a top Italian police officer in February concluded that only 4% of migrants who arrived illegally in Italy in 2004 came by sea (though the figure has since risen). But the tragedies of seaborne migration appal public opinion in destination states and put pressure on governments to strike deals with the countries from which migrants depart.

Italy's former prime minister, Silvio Berlusconi, flew to Libya more than once to seek an understanding with Mr Qaddafi, but no deal was reached on Libya's claim to compensation for losses suffered as an Italian colony. Mr Qaddafi may hope for more success with Mr Berlusconi's successor, Romano Prodi.

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Moscow's boom

Building a new Rome

Aug 24th 2006 | MOSCOW
From The Economist print edition

What Moscow's property boom reveals about Russia's uneven, breakneck growth

Reuters

Luzhkov's new icons

“MY MOTHER”, says Oksana, an accountant, “is really happy for me.” Her parents lived most of their lives in housing provided by the Soviet government; she and her husband have just moved into a two-bedroom apartment on the edge of Moscow. In 2003, they agreed a $60,000 price for the flat, then under construction; now it is worth $240,000.

Where it isn't a traffic jam, Moscow is a building site. The construction crane is now the city's emblem, the racket of drills its anthem. There is a similar din in many Russian cities, but it is loudest, and the price rises are steepest, in Moscow. According to IRN.ru (site in Russian), a market analyst, residential property prices have almost doubled in a year. Muscovites have become as obsessed with property prices as Londoners. Ira, who works in publishing, is selling the apartment that she bought for $100,000 in 2002 for five times as much. Residential rents are stratospheric; office costs are among Europe's highest.

Despite all the cranes, there are too few new buildings or revamped pre-revolutionary ones for all the money chasing them (few moneyed Russians want to live in anything Soviet). And Russians are just learning about mortgages. Igor Kouzine of DeltaCredit Bank, Moscow's first mortgage lender, says that, although the number of borrowers doubles every year, only 5-8% of purchases are backed by mortgages. Most buyers pay cash.

Not so long ago, many Muscovites lived in grotty *communalki*, or communal apartments, sharing bathrooms and kitchens. The property boom is a symptom of Russia's economic resurgence, and of the growth of its middle class. But as with Russia's breakneck development as a whole, the rush has losers and victims too.

Earlier this month, Russia's prosecutor-general instigated a probe into price-fixing among Moscow construction companies. The politicians, understandably, feel obliged to so something. The average monthly wage in Moscow is officially only around 17,000 roubles ($630); elsewhere, it is less. A big chunk of the population has been left behind by the new prosperity. Vladimir Putin, Russia's president, has made the provision of affordable housing a main priority.

“Impossible”, says the Moscow city government of the price-fixing. Perhaps; but other kinds of graft are rife. An investigation by a newspaper found that more than 10% of the cost of a new apartment went on bribes. “That's too low,” says Alexei, a contractor. The huge number of permits, plus legal gaps and contradictions, create endless possibilities for obstructions, delays—and kickbacks. Some claim that the

city is not always impartial in its allocation of projects. Others note that the wife of Yuri Luzhkov, Moscow's mayor, co-owns one of the city's biggest construction firms.

As usual, the police are in on it too. Of the million-odd people in the Moscow construction industry, many of those labouring on the city's 4,500 building sites are immigrants. “The Tajiks are the best,” says Alexei, because they work hard for little money and don't drink. They may live in on-site barracks, surviving (says one) on potatoes, bread and macaroni. Because they often work illegally, they are vulnerable to harassment by corrupt police, mistreatment by employers, and collusion between the two. Oksana the accountant's happy story had a sad twist: the Moldovans who were living in her apartment while they decorated it paid a share of their wages to crooked policemen.

There are indigenous losers too, let down by suborned courts or hazy, outdated property laws (“in our country,” Alexei says nervously of property rights, “everything can change”). The village of Butovo, on Moscow's southern edge is a wonky Russian idyll of rickety fences, rusty roofs and fruit trees. Tatiana Kupolova lives in the house her family built in 1934, when many Muscovites were relocated under Stalin's violent urban redesign. But the city has reached Butovo: high-rise buildings overlook Ms Kupolova's plot, and the planners want another. In June, riot police turned up to enforce a contested removal order. “They beat everyone,” she says. The authorities, she claims, told her that she was “nobody, you have no chance.” She has written to Mr Luzhkov and Mr Putin, but they haven't answered.

In the city centre, a common ruse is to have buildings condemned, then replace them with lucrative new ones or dubious replicas of the originals—bad news for anyone who happens to live in them. Emilia Souptel and her mother, who have lived in an historic building since 1974 and opened a restaurant in it in 1989, are battling (perhaps related) threats of condemnation and a developer's plans to build luxury flats at their address. Ms Souptel beat the developer in court—“a miracle”, she says—but she now fears extra-legal methods. “Silence doesn't mean peace in Russia.”

Architecturally, says David Sarkisyan, of the Shchusev State Museum of Architecture, the result is a glass-and-steel city, becoming “more and more spectacular. but more and more ugly.” Classy modernist buildings, as well as older ones, have been torn down, not all as unlovely as the giant Rossiya hotel now being demolished next to Red Square. Today's ruling class, says Mr Sarkisyan, is as uncultured as were the Bolsheviks.

Still, things are better than they were in the 1990s, when apartment-related murders were common. A new law is intended to protect homebuyers from fraud: thousands have handed over deposits, only for their apartments to stay unbuilt or be sold to others. A protest by defrauded buyers was broken up by riot police in May; the city promises to compensate them. “It was a big risk,” says Oksana of her own investment, but now “I am very proud”.

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Migration from eastern Europe

Second thoughts

Aug 24th 2006
From The Economist print edition

Camera Press

Why the door will not open for workers from Romania and Bulgaria

WHEN the European Union expanded in May 2004, just three of its existing 15 members welcomed migrant workers from eastern Europe. Britain was the only large country to open its labour market. Along with Ireland and Sweden, it waived the opportunity to impose restrictions lasting up to seven years. The decision allowed eager Poles, among others, to fan out to vegetable fields, building sites, factories and restaurants across Britain.

In January 2007 the EU is expected to expand yet again. On current plans, Romania and Bulgaria will follow in the wake of the eight eastern countries that joined in 2004. Until now, the government was resolved to offer the same welcome to migrant workers from the two new members. But ministers are having second thoughts—and thinking them aloud.

On August 20th Alistair Darling, the trade secretary, said that migration from Romania and Bulgaria would be “managed”. In explicitly ruling out an open-door policy, he seemed to be preparing the ground for an embarrassing U-turn.

The bigger political embarrassment, however, would be another stampede of migrant workers, this time from Romania and Bulgaria. Before Poland and the other seven countries joined, the government published a prediction of the likely migration that has proved wildly wrong. The study suggested that the net inflow of workers (taking into account those that return) would be only 13,000 a year up until the end of the decade.

Instead, figures released on August 22nd showed that 427,000 migrants from eastern Europe had registered for work between May 2004 and June 2006. These figures do not include the self-employed, such as the supposedly ubiquitous Polish plumber. Allowing for that, the true figure was nearly 600,000 according to Tony McNulty, a Home Office minister.

John Salt, director of the migration research unit at University College London, says that the population movement since May 2004 is the biggest single wave of migration in British history. Certainly this is the case in absolute terms, although he adds that the arrival of Huguenots from France in the late 17th century may have been bigger as a share of the population.

Ministers are waking up to the political dangers of presiding over an even bigger influx than the current one when Romania and Bulgaria join the EU. There is nothing new in such calculations. “Immigration can be the greatest political vote loser for the Labour Party if one seems to be permitting a flood of immigrants to come,” noted Richard Crossman, a Labour minister, in his diary in February 1965, during a time of heightened anxiety about new arrivals. But until now Tony Blair's government has thought that the economic gains were worth the political risk.

The new wave of migration has certainly brought some impressive short-term benefits. The working-age population has recently been increasing at its fastest for over 20 years, which should feed through to faster GDP growth. Competition from so many keen jobseekers has helped to keep wage pressures at bay despite the leap in inflation caused by higher energy and commodity prices.

Although the macroeconomic impact of the newcomers appears benign, it has distributional consequences that are increasingly worrying Labour MPs. Almost four-fifths of the arrivals who have registered for work earn an hourly rate of between £4.50 ($8.50) and £6. By contrast, less than a fifth of the overall working population earn less than £6 an hour. John Denham, a former minister, says that the new arrivals have halved wages for builders in his Southampton constituency.

Both he and Frank Field, another influential Labour backbencher, also worry that the migrants will undermine attempts to get people off benefit and back to work. “If you have a choice between hiring someone who has been on incapacity benefit with a mental health problem for five years, or a young, fit Pole, who are you going to go for?” asks Mr Denham.

Another concern is the strain on the public services from so big a population shock. Although few of the new workers have brought families with them so far, some local authorities are starting to complain about increased demands. In Slough, the council says that one of its primary schools has recently taken in 50 Polish children in a single term. And because the new migrants have spread out, rather than clustering in London and a couple of other big cities as previous waves have done, their effect is being felt all round the country.

As such worries intensify, the chances of Romanians and Bulgarians replacing Poles and Lithuanians as prime fixers of the country's dodgy plumbing are fading. Indeed, a broad political coalition, including employer groups like the British Chambers of Commerce, now opposes extending the open-door policy to the two prospective new members.

Romania and Bulgaria have two other things going against them. First, as especially poor countries, their workers may be even more likely to move to Britain than those who have come already. Second, there is no grand foreign-policy objective in their favour. Two years ago, worries about low-paid workers stealing jobs were swept aside by arguments about winning allies in the east in battles over the future of Europe. But that is no longer so necessary now that the EU has stalled following the no votes against the constitution.

Workers from the existing eight eastern EU members will remain free to work in Britain. But if restrictions are imposed on migrants from Romania and Bulgaria, as now seems likely, the decision may also mark the peak in an extraordinary high tide of immigration.

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Terror-plot investigations

Getting it right

Aug 24th 2006
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A success for the police, but who else should they watch?

ON AUGUST 10th the British authorities declared they had foiled an attempt to cause carnage “on an unprecedented scale” by blowing up transatlantic flights. The response from senior British Muslims, and also from hawkish critics of the government's anti-terrorism policy, was for once almost identical: “Let's hope they have got it right this time.”

That sceptical reaction followed a series of embarrassments, including a raid by 250 policemen on a house in east London, which led to an accidental shooting and the brief detention of two bewildered Asian brothers. But the security services now seem ever more confident that they have indeed got it right: they have successfully laid bare a scheme to repeat or surpass the mayhem of September 2001.

Of the 25 people originally arrested in connection with the alleged plot to blow up airliners, 11 appeared in a London court on August 22nd. Eight were accused of conspiracy to murder, and a new offence of “preparing an act of terrorism”. Two others—including the wife of one alleged conspirator—were charged with failing to pass on information about a terrorist plot; and a 17-year-old youth was accused of having a book on bomb-making as well as incriminating wills and videos. Peter Clarke, a senior policeman, said this week that since August 10th some bomb-making chemicals and components had been discovered; they would provide evidence along with “highly significant video and audio recordings” gathered earlier.

The profiles of the suspects—all young Muslims from the south of England—are already providing contradictory fuel for a debate about what more the government should do to curb extreme forms of Islamism. Take the fact that one defendant ran an Islamic Society at London Metropolitan University. This has been cited as new evidence that sloppily supervised campuses are becoming breeding-grounds for ultra-radical groups. Musa Admani, the imam at the university, agrees, saying that many colleges tolerate political extremism out of naive respect for faith.

Some people see the main instigator of radicalism among British Muslim students as Hizb ut-Tahrir, a movement that eschews violence but wants a worldwide Islamic caliphate. After last year's London bombs, the government vowed to outlaw that group, but then drew back. Muslim critics of Hizb ut-Tahrir (in other words, those who believe in democratic politics) say its rating among youngsters perversely rose after an attempt was made to ban it.

Anyway it is not clear whom exactly the government should target if it wants to stop youngsters turning to extreme types of Islam. Among those detained this month, two were converts from unlikely backgrounds. One reportedly had a white, middle-class father, once active in the Tory party. Another had West Indian parents who were practising Christians. Whatever the appeal of ultra-radical forms of Islam for angry young people, no class or race seems to be immune.

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Cricket

Tamper tantrum

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A complicated game gets even trickier

Reuters

Let's not play

CRICKET'S laws, which date back to 1744, have long puzzled the uninitiated. But on August 20th even fans discovered a hitherto unknown but rather important rule: that a team can forfeit a game by sulking.

This happened towards the end of the fourth day of a match played in London between England and Pakistan. During the afternoon the umpires decided that the visiting team had been tampering with the ball, and added five runs to England's score. In a huffy response, Pakistan refused to restart play promptly after the interval for tea. (Cricket still revolves around meals rather than the whims of television viewers.) After a while, the umpires decided that Pakistan's tantrum had cost it the match.

Rules about tampering are complicated. Players may polish the ball on their clothes or dry it with a towel. They can also remove dirt from the seam that occurs where the two halves of the ball are sewn together. But picking at the ball, scuffing it on the ground or applying anything other than spit or sweat are not on. Rahul Dravid, an Indian batsman, was once fined for shining a ball with saliva while munching on a sweet.

If the rules on tampering are odd, most players nonetheless know when they are cheating. The same cannot be said of some other cricket laws. For example, a bowler must bowl the ball to the batsman, but he cannot throw it. The difference? It's all in “the degree of elbow extension, as opposed to hyperextension/adduction,” according to the International Cricket Council, which regulates international games. Just in case that's not clear, it employs a team of “human-movement specialists” to decide when a bowler is a chucker.

Happily, any player who is judged to have broken the laws or the spirit of the game can, according to the council, appeal to “the principle of natural justice”. This time Pakistan is convinced justice is on its side.

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London's overcrowded airports

Holding pattern

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Demands to break up BAA's monopoly are intensifying

FOR BAA, the owner of London's three main airports, the timing could not have been worse. Last week, as security staff struggled to clear twisting lines of fractious passengers in the aftermath of a foiled bomb plot, even more furious airlines were making their submissions to the Office of Fair Trading, which is currently investigating Britain's airports market.

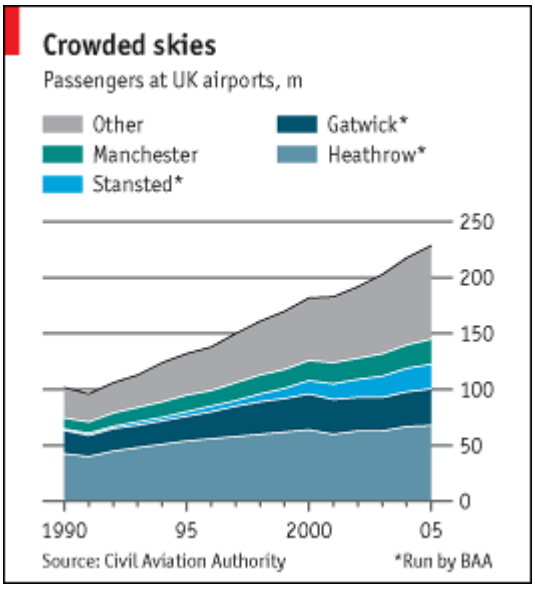
Given such scrutiny, BAA might have been expected to be on its best behaviour. Instead, after the police announced that they had thwarted a plan to blow up passenger jets between Britain and America, it bungled the introduction of tighter screening of passengers, causing long delays and throwing Heathrow, Europe's busiest airport, into chaos. British Airways alone cancelled more than 1,100 flights.

Moreover, BAA was misguidedly heavy-handed in the way that it managed the crisis. Amid all the disruption at Heathrow, Tony Douglas, the company's chief executive, threatened to expel airlines from the airport unless they cut flights. So it is little surprise that some of its most important customers are asking the Office of Fair Trading to refer BAA's grip over London's airports to the Competition Commission, which has the power to order the company's break-up.

Similar calls have been made before. In 2003 a committee of MPs said that BAA should be dismantled. A year earlier, when the Civil Aviation Authority last capped its landing fees, airlines said the company should be broken up. In fact ever since it was privatised in 1987, they have railed against BAA's power.

Over the past 15 years, the company's share of the national market has slipped: 63% of passengers in Britain passed through its airports in 2005, compared with 72% in 1990 (see chart). But its hold over the London market remains impregnable. Nine in ten passengers flying out of London go through Heathrow, Stansted or Gatwick, all owned by BAA.

One reason why the company has survived previous assaults is that a break-up alone would do little to weaken Heathrow's dominance. Not only is the airport just a 15-minute express-train ride from central London, but it also offers many more connecting flights than its two rivals do. The airport is so attractive to passengers that a short-haul flight operating from it may gain as much as £2m a year in extra profit compared with one out of Gatwick, says David Starkie, an aviation expert. Even if Gatwick and Stansted were set free to compete with Heathrow, they would struggle to win much business from it.



But there may be political and environmental, if not commercial, limits to the airport's potential. Noise and air pollution have angered residents in the neighbourhoods around Heathrow. The government argues that a new runway should not be built there any sooner than 2015, and only then if stringent limits on local air pollution are met. Although Gatwick cannot build a new runway before 2019, Stansted can expand provided that it is profitable.

Many of the arguments against breaking up BAA assume that price-control regulations would remain in force because of Heathrow's dominance. That may be a mistake. Allowing landing fees to rise at Heathrow to reflect its popularity would make its rivals more appealing. That should stimulate investment

in airports such as Stansted that have the government's blessing to expand, bringing relief to the jostling queues of passengers that will be thronging BAA's overcrowded terminals this weekend.

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Low-skilled youngsters

No end of them

Aug 24th 2006
From The Economist print edition

Employers have good reason to moan

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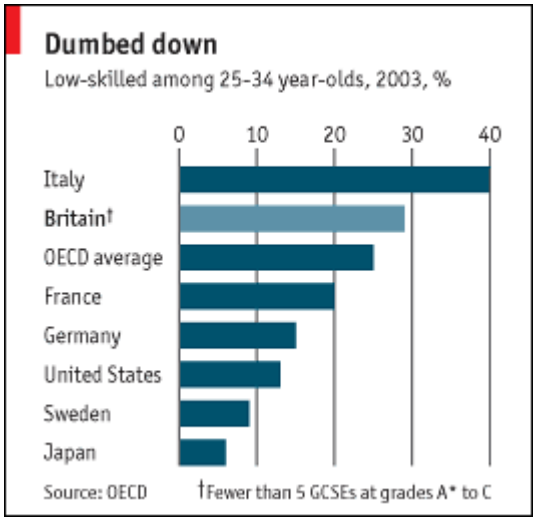

EVERY time Kate Owen, director of Opal London, interviews candidates for a job, she sets them a simple maths test. Her firm, a “body-care products” wholesaler, is small, which means that each of her 12 employees may need to talk to buyers about prices. “But the number of job applicants who cannot calculate 10% of 10 is staggering,” she says, sitting in an office piled high with pink bars of soap and yellow plastic ducks. Many also lack basic writing skills. “Every time we advertise a job vacancy I'm demoralised by the standards of people coming out of school,” she says.

On August 21st the Confederation of British Industry published some damning findings about school-leavers' poor skills that support Ms Owen's concerns. Companies surveyed by the CBI grumbled that many youngsters were unable to do the simplest mental arithmetic or to write English without spelling mistakes and grammatical blunders. One in three employers said standards were so low they had to provide staff with remedial training in English and maths.

There is a depressing familiarity about such complaints. The economy has long been held back by having too many low-skilled workers. International comparisons suggest that this is still a big problem among young adults (see chart). Now employers appear to be seeing little improvement among school-leavers.

On August 24th the overall GCSE pass-rate rose. But although the share of 16-year-olds getting five or more passes graded C or above has been climbing, it is still too low. Last year only 56% achieved this level. If those five decent grades included maths and English, however, only 44% of pupils managed to do that well. And many of those who do make the grade in maths and English are not up to scratch. Universities routinely complain that students arrive with poor grammar and spelling.

The government is trying to do something. It wants to make GCSE maths and English tougher by bringing a “functional” element into the exams. Quite what this will entail is not yet clear: an ability, probably, to apply skills to problems pupils may encounter in their working lives. But it will matter for their results. If pupils fail this component of the exams, they will not score higher than a D grade.

In 2008 the government will also introduce new, specialised diplomas to replace the present tangle of vocational qualifications that students can opt to take instead of GCSEs and A-levels. These, too, will include tests to show that pupils have a functional grasp of English and maths.

Although these reforms may help, companies report other skills that are in short supply. For example, they complain that many school-leavers cannot speak clearly. Manners are also a problem; one firm cited applicants who show up for interview in “scruffy track-suit bottoms and trainers, and grunt”.

In 1997 Tony Blair campaigned on a pledge of “education, education, education”. The prime minister can hardly be blamed if today's youngsters have poor manners. But the litany of woes from employers suggests that something has gone wrong with Labour's school reforms.

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Tackling childhood obesity

Fat chance

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How to help porky youngsters

FOR fat children, August rather than April is the cruellest month, as summer clothes reveal the flab. But a summer holiday can also be an opportunity to shed weight in company. In Leeds, a “fat camp” offers places to children from all over Britain. The aim is for them to become fitter—activities range from yoga to martial arts—as well as slimmer. Most lose between two and four pounds a week.

The potential clientele is expanding all the time. In 1995 just over a tenth of children aged two to 15 years were obese (not just overweight but extremely fat). By 2004 this had risen to nearly a fifth. And if current trends continue, just over a fifth will be obese by 2010, according to an independent report for the health department due to be published on August 25th.

The prediction suggests that the government will miss its target, set in 2004, of halting the rise in obesity among children (under 11) by 2010. It chimes with a gloomy assessment made earlier this year by the National Audit Office together with two other watchdogs. The NAO drew attention to a spider's web of public agencies involved in trying to meet the target. Administrative confusion, it suggested, was hampering a fight against flab that in any case lacked clear national leadership. The government responded to the health department report before it had even been published: Caroline Flint was appointed “minister for fitness” on August 22nd to head the battle against the bulge.

Ms Flint's title may be laughable, but childhood fat blights many lives. Obesity is strongly linked with type-2 diabetes, which can reduce life expectancy by ten years. Until recently this was a chronic disease affecting only adults but now children are also getting it. If it becomes still more prevalent, this will put a big strain on the National Health Service. One estimate is that diabetes already costs the NHS a tenth of its budget.

In a generally thoughtful speech on healthy living a month ago, Tony Blair talked about the steps already being taken to try to prevent children getting fat. School meals will become more nutritious and fizzy drinks are to be banned from school vending machines and cafeterias. The government is working on a voluntary code with the food industry to limit the advertising of junk food to children. Mr Blair said that if this cannot be achieved, the code will be made mandatory.

The lesson from Leeds

Even if more children can be stopped from becoming fat in the first place, that will still leave many who need to lose weight. The Leeds summer camp, founded in 1999 by a team of academics from Leeds Metropolitan University, offers some clues on how to help them. Peter Mackreth, a programme leader, says that if children eat just 100 excess calories a day (roughly an extra packet of crisps) they can put on almost a stone over the course of a year. The programme at the camp obviously does not keep children there that long, but staff do insist upon a gradual approach in order to achieve an enduring effect.

As important, the camp organisers maintain contact with the children when they return home and monitor how they are faring. The academics are also planning a special camp next year to help families slim down together.

The need for a long-term approach involving parents is a lesson not just from Leeds but also from Arkansas. By 2003 almost two-fifths of children and adults in the southern state of America were overweight or obese. The state government launched a schools-based plan to halt the increase, which included regular reports to parents about their children's weight. An assessment published on August

16th suggests that the plan is starting to work.

At the Leeds camp, the teenage girls demolish their lunchtime salads and eye up the pleasantly rounded chaps. They say the camp lets them get fit without being mocked. One girl remembers the boys at her school calling out that either she or the water in the swimming pool would have to go. Childhood obesity is not funny.

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The defence industry

Collateral damage

Aug 24th 2006
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Eyevine

Why the war in Iraq is surprisingly bad news for America's defence firms

WHEN Boeing announced on August 18th that it planned to shut down production of the C-17, a huge military cargo plane, the news sent a shiver through the American defence industry. As it winds down its production line at Long Beach, California, over the next two years, Boeing will soon begin to notify suppliers that their services will no longer be needed. It had to call a halt, because orders from America's Defence Department had dried up and a trickle of export deals could not take their place. The company would not support the cost of running the production line for the C-17 (once one of its biggest-selling aircraft) on the off-chance that the Pentagon might change its mind and place further orders.

The wider worry for the defence industry is that this could be the first of many big programmes to be shut down. A big part of the problem is that America is at war. The need to find an extra $100 billion a year to pay for operations in Iraq means there is pressure to make cuts in the defence budget, which has been provisionally set at $441 billion for the fiscal year beginning in October. American defence budgets involve a complicated dance starting with what the Pentagon wants, what the White House thinks it should get and, finally, what Congress allows it to get away with. Although the armed forces' extra spending on ammunition, fuel, provisions, medicines and accommodation in Iraq does not strictly come out of the same budget as new weapons, the heavy bill for fighting eventually leads to calls to save money on shiny new equipment.

Earlier this month, for example, the Congressional Budget Office expressed “major concerns” about Future Combat Systems, a $165 billion project to upgrade all of the army's vehicles and communications networks. The scheme is the Pentagon's second-biggest development programme and is intended to give the soldiers on the ground access to real-time battlefield information from sources such as satellites and unmanned aircraft. But the programme was initially expected to cost about $82 billion, half the latest estimate, and critics are also worried about how well it will work and whether it will be delivered on time.

Last week the army issued a glowing progress report on the project and insisted that Boeing and Science Applications International Corporation, the lead contractors, are on schedule. This was welcome news to defence contractors worried that the grandiose project might fall victim to pressure for budget cuts. Even so, the prospects for many other big weapons programmes are less rosy.

The problem is not just the cost of the fighting in Iraq, but also its nature. The shift in the style of warfare, towards such “asymmetric” conflicts, means that there is now less demand for big-ticket

weapons systems. Things were simpler in the cold war, when the Pentagon spent about $150 billion a year on new weapons. That fell to around $50 billion after the fall of the Berlin Wall. America's 15 main defence contractors reacted by consolidating into today's top five. When he became president, George Bush promised to increase defence spending, and he has done so: the procurement budget is back up to nearly $160 billion, despite the lack of a Soviet Union.

As a result, the five main defence contractors—Lockheed Martin, Boeing, Northrop Grumman, General Dynamics and Raytheon—have had a wonderful five years. Since the terrorist attacks in September 2001, their sales have risen by around 10% a year. Last year their combined profits increased by 25% to almost $13 billion. Although most of the defence budget is spent on big weapons systems that are of little or no use in the fight against terrorists, the political climate after the attacks of September 11th 2001 made it impossible to oppose the administration's desire to increase defence spending. Besides, such spending means more jobs, often in areas where there is little other manufacturing.

This bonanza now looks as if it is coming to an end. Spending on big weapons systems designed to take on an aggressive rival superpower looks increasingly irrelevant and is being cut. Since cancelling projects outright is politically awkward, this has so far meant scaling them down.

Lockheed Martin and its political supporters (who are keen to preserve jobs in Georgia) have been fighting to extend production of the F-22 stealth fighter, for example, which was first conceived in 1986 and now could cost over $300m for each aircraft, making it the most expensive weapon in America's history. Originally, the Air Force wanted 381 of these short-range fighters, designed to defend European skies against the Soviet Union. The number has since been cut to 183 planes.

Further cuts loom for other programmes. The F-22 is a stop-gap between today's F-15 and F-16 aircraft and tomorrow's Joint Strike fighter, the F-35, the biggest defence contract ever. This will now cost $276 billion, up from the original estimate of $190 billion, though America has persuaded allies such as Britain to chip in some of the development money in return for a lucrative share of manufacturing. But it now seems likely that demand for these fighters will be far lower than expected.

Even modifying weapons systems to make them better-suited to asymmetric conflicts does not protect them from the budgetary axe. A futuristic naval vessel, the DDG-1000 destroyer, was adapted after September 11th's attacks with fancy equipment to make it more able to support far-flung missions. As a result, the cost of each ship tripled to around $3 billion. Now the Navy will probably order only seven vessels, not the 32 originally envisaged.

Cuts in fighter jets and warships, which are little use in an urban guerrilla conflict, are probably inevitable. Investing in new technologies, such as Future Combat Systems, to make individual soldiers more capable and responsive, makes more sense. So the winding up of the C-17 programme is curious. The more American troops have to be deployed in places like Iraq and Afghanistan, the more need there will be for aircraft to carry them and their equipment to the battlefield—and for in-flight-refuelling tankers to keep aircraft flying in areas where landing is dangerous or impossible.

Hence the conspiracy theory, circulating in the industry, that Boeing has chosen to announce its plans to shut down C-17 production so as to force the Pentagon's hand. Just a few more orders would keep the production-line running, whereas restarting it in a couple of years, when military planners may suddenly decide that they need more such aircraft, would be far more expensive. And as things stand, C-17 production will stop just as a new transport aircraft from Boeing's European rival Airbus, the A400M, becomes available. Buying foreign aircraft could prove to be even more politically unpalatable than buying expensive American ones.

There will in any case be a big rearguard campaign, led by congressmen from the places most affected, to keep the C-17 alive. Its demise would hit 30,000 jobs across America, according to Boeing's defence boss, Jim Albaugh. And whatever the Pentagon or the White House says, Congress has the last word on military budgets. Straightened times may well loom for America's defence companies, but the fate of military programmes such as the C-17 ultimately depends not just on budgetary considerations and strategic shifts, but on pork-barrel politics, too.

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Ford and General Motors

Engaging reverse gear

Aug 24th 2006
From The Economist print edition

Ford's big cutbacks are the latest sign of deeper problems

FORD'S announcement on August 18th of a 21% cut in its planned output in the fourth quarter of the year shows what an increasingly desperate situation it is in. The world's third-largest carmaker has been trying to cut its way to profit for four years, with little success. In the first half of this year it slipped back into a loss of $1.3 billion, after three years of recovery. The only positive thing about its latest announcement is that it shows the firm is at last beginning to face reality. Indeed, in the longer term, there are signs that the company and the Ford family are considering even more drastic action.

The reason for the cutback is that Ford is being hit hard by the fall in sales of big pick-up trucks and SUVs, where it makes most of its profits. With the high cost of petrol, consumers are moving down to smaller SUVs or even to cars, both parts of the market where Ford is not so strong. In the past, Ford's reaction to a downturn would have been to use big discounts to “move the metal”. But that is a horribly expensive way to protect market share, and one that Ford can no longer afford. So it has decided instead to retreat by cutting production. (It will also offer interest-free loans on sales of surplus cars that have already been built.)

AP

There's just no call for them any more

Ever since it plunged suddenly to a $5.5 billion loss in 2001, Ford has issued a series of recovery plans based on factory closures and job cuts that take forever to have any effect, because the United Auto Workers union has to agree to them. Meanwhile, Ford's share of the North American market has steadily declined.

The firm is now planning further job cuts on top of those in its “Way Forward” plan unveiled last January. That called for 30,000 jobs to go, with the closure of 14 plants. Way Forward was itself a response to the failure of the 2002 recovery plan put in place when Bill Ford took over as chief executive from Jac Nasser. The board will meet next month to consider further drastic cuts of about 25% of jobs, including salaried staff. So 30,000 employees could be offered severance packages before the planned plant closures even take effect. Ford looks, in other words, as though it is now trying to emulate the cuts under way at General Motors (GM).

For months attention has focused on the travails of GM, as it grappled with losses, overcapacity, job cuts and huge liabilities for pensions and health care. Now the world's biggest carmaker—still just ahead of Toyota—is doing better. It managed to make a profit in the first half of the year (excluding one-off charges), is quietly cutting back on profit-sapping discounts and has persuaded a third of its workforce to accept early severance. It is also contemplating a tie-up with Renault and Nissan.

Late last year Ford family members were talking wistfully of taking the company private. But they could not afford the $15 billion that would have cost, and no private-equity backer would go near a firm with such poor prospects where a family holds 40% of the voting shares, but only 5% of total equity. Now in a clear sign that the family is worried, a veteran investment banker who used to work for Goldman Sachs has been appointed to carry out a strategic review of its assets for Bill Ford.

He may come under pressure from directors to sell bits of the company. One obvious candidate is Volvo, which is doing well. And JCB, a British construction-machinery group, says it is interested in buying Jaguar, the loss-making British carmaker which has cost Ford $10 billion since it was bought in 1989. Carlos Ghosn, who runs Renault and Nissan, has looked at Jaguar too. And there were even suggestions

this week that Ford has proposed itself as a better American partner than GM for Renault and Nissan.

It all shows how bad things have become. Insiders acknowledge that Ford's main weakness is poor product development. This has left it struggling in its highly competitive home market, where it faces not just GM and Chrysler, but also Japan's big three (Toyota, Nissan and Honda) and Hyundai, an ambitious South Korean newcomer. Though Ford does well with some models such as the Mustang sports car, it is weak in minivans and the smaller saloons that are coming back into fashion. Successive reorganisations have wrecked Ford's product development. Even if it were working well, the company takes three to four years to turn out a completely new model. No wonder the family is getting twitchy: things could get much worse before they get better.

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In-car electronics

Strap in and boot up

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Cars are now sold on their electronics, not just their mechanics

HORSEPOWER is nice, but processing power is better. That seems to be the motto of the modern car, which is becoming as much an electronic system as a mechanical one. Computer chips already regulate machinery, from the engine to the brakes to the suspension. Companies that used to tout a car's ability to go from zero to 60 in a hurry are now just as likely to trumpet its mastery of zeroes and ones.

In some cars, such as the Mercedes-Benz S-Class or the BMW 7-Series, electronics already account for some $10,000-20,000 of the price. The most rapid growth is in the area of information and entertainment systems, sales of which will increase by 10% a year over the next decade, according to Roland Berger, a consultancy.

A well equipped car in America, for example, now comes with a satellite-radio receiver and a CD player, as well as an ordinary radio. Many carmakers then offer pricey upgrades, such as a Bose sound system. Lexus has an exclusive deal with Mark Levinson, a maker of expensive audio equipment. New cars often include navigation systems, some with real-time traffic updates so that drivers can avoid jams. In the back seat, meanwhile, children can watch videos, if their parents opt for a built-in DVD player. Many cars sport Bluetooth systems that link to drivers' mobile phones.

This has caused a proliferation of knobs and buttons, many of them on an increasingly cluttered steering wheel. Anyone hoping to test-drive a new car must first endure a training session to master the dashboard; the days when all a buyer needed was a stretch of open road are gone. The multimedia overload is a headache for carmakers, too. BMW's iDrive, an electronic-dashboard system, was meant to simplify things for drivers, but irritated them instead. And Jürgen Hubbert, a former branding boss at Mercedes, says electronics accounted for more of the firm's warranty claims than anything else for many years.

Roland Berger's research found that Japanese firms—which are also keen on electronics, but value simplicity too—have done a better job of pleasing customers. Carmakers should take heed. Electronics can make cars more fun. But when drivers leave their desks and slip behind the wheel, they expect to be done with technical support for the day.

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Gaz de France and Suez

Breton's battle

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From The Economist print edition

The GDF-Suez merger faces both political and commercial obstacles

THIERRY BRETON did not go on holiday this summer. The French finance minister sacrificed his break to an ambitious task: unifying his ruling centre-right UMP party behind the controversial plan to merge Suez, a formerly state-owned water and power company, with Gaz de France (GDF), the state-controlled gas giant. The plan was brokered by the government in the spring to pre-empt a hostile bid for Suez by Enel, Italy's biggest electricity firm. In recent weeks Mr Breton met some 200 parliamentarians for about one hour each to explain the merits of the deal.

Mr Breton is now confident that he has rallied the UMP's troops to his cause, and that they will back a draft law for the reduction of the state's stake in GDF from 80% to 34%, which is required for the merger to go ahead. He was helped by Nicolas Sarkozy, the interior minister and the leading centre-right candidate for the presidency, who recently turned from opponent to advocate of the merger, which would create a European energy giant with sales of €64 billion ($76 billion).

Discussion of the merger's draft law will start on September 7th. Opposition politicians are threatening to greet the bill with thousands of amendments when it is presented to the National Assembly. Dominique de Villepin, the prime minister, could invoke a constitutional mechanism and force the law through by making it a vote of confidence. This would save time, but would infuriate the opposition.

Yet the merger must also overcome two other obstacles. The first is to win approval from the European Union. On August 19th EU regulators announced a preliminary list of objections to the deal, which would also bring together the two main gas and electricity firms in Belgium and two of the three main gas and heating suppliers in France. And the merger then faces another big hurdle: Suez shareholders' staunch opposition to the deal's pricing.

Compared with the fight on the political front at home, Mr Breton seems to regard negotiating with EU regulators as a walk in the park. Last week he said he was not worried about their investigation. Suez and GDF are confident too. They say the 200-page document listing the EU's objections to the merger contained no surprises. The companies have ten working days to respond to it and the regulators will make up their minds by October 25th.

Suez and GDF will probably offer to sell GDF's 25% stake in SPE, a big electricity firm in Belgium. Centrica, a British gas retailer that owns another quarter of SPE, has signalled interest in the holding. The bigger question is whether Suez will sell its stakes in Fluxys, a gas-distribution company; Distrigas, a gas-trading company; or Elia, a grid operator, as some Belgian politicians are demanding. Suez is reluctant, and EU law requires only independent regulation of gas production and transmission, not legal separation.

Suez is making far more positive noises about meeting EU demands than about winning the support of its shareholders for the deal. They dislike the one-for-one stock swap through which GDF would acquire Suez after the payment of a €1 special dividend to its shareholders. Shareholders will not vote for the merger unless there is a big price increase, says Colette Neuville, head of ADAM, a French association of minority shareholders. She wants a special dividend of more than €10.

Enel has not excluded making a hostile bid for Suez, which would probably appeal far more to the firm's shareholders than the GDF merger would. This alarms French politicians, who would like to put an end to Enel's plan. According to *Le Parisien*, the French government has struck a secret accord with their peers in Rome: if the Italians abandon their plan to bid for Suez, then Air France-KLM, the Franco-Dutch airline in which the government owns a 19% stake, would compensate by taking over Alitalia, Italy's near-

bankrupt national airline.

Bizarre as this sounds, it could happen. Energy and airlines are both politically sensitive industries. During the merger discussions between KLM and Air France in 2003, Alitalia offered to join in. And Enel seems to be losing support at home: the Italian government recently signalled that it would not back a hostile bid for Suez. *Si non è vero è ben trovato*, says an insider: even if it is not true, it is a good story.

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The film industry

Risky business

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From The Economist print edition

Viacom fires its top gun

SO MUCH for the idea that all publicity is good publicity. For months Tom Cruise has hardly been off the front pages of the celebrity magazines—the latest speculation raging over whether his new baby actually exists. The film star has also made headlines by preaching the virtues of Scientology, criticising psychiatry, attacking the use of drugs to treat post-partum depression, and proclaiming his love for his actress girlfriend by jumping up and down on the sets of prime-time television shows.

Yet instead of hailing Mr Cruise as a marketing genius, his studio, Paramount Pictures, has ended its contract with his firm, Cruise/Wagner Productions. The actor “effectuates creative suicide,” says Sumner Redstone, the chairman of Paramount's parent company, Viacom. “As much as we like him personally...his recent conduct has not been acceptable,” he told the *Wall Street Journal*.

Paula Wagner, Mr Cruise's production partner, tells a different story. She says his agent, Creative Artists Agency, ended negotiations with Paramount and decided instead to pay for its activities through a radical new business model. This reportedly involves investment by two unnamed hedge funds, which will finance a revolving fund of up to $300m a year for filmmaking. Mr Cruise and others will develop “major-budget, high-concept films” and small-budget movies.

So the split might genuinely be a business decision. It is easy to see why hedge funds are attracted to financing individual films: they are just the sort of high-risk, high-return activities they love. But will hedge-fund managers be any better at deciding which films to back than the studios? Will Goetzmann of Yale, who has studied both industries, has his doubts. Picking box-office hits is far harder than spotting good investment opportunities, he says. The projects that struggle to raise money are those with novel, quirky scripts—hardly Mr Cruise's cup of tea.

But perhaps he plans a change of direction. After all, Mel Gibson, whose recent behaviour has been even odder than Mr Cruise's, struggled to raise money from the main studios for his highly profitable film about Jesus Christ. Anyone for “Scientology: The Movie”?

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Face value

The real thing

Aug 24th 2006
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Sunita Narain, an Indian environmentalist, has dented two of the world's glossiest brands

NOT much renders Sunita Narain speechless. But watching television on August 22nd and hearing India's health minister, Anbumani Ramadoss, describe her to parliament as a “good friend”, she was for a moment lost for words. Mr Ramadoss was in the process of (ever so politely) rubbishing a controversial piece of work by the Centre for Science and Environment (CSE), Ms Narain's research and lobbying group, based in Delhi. On August 2nd CSE had reported that its laboratory had tested soft drinks made by Coca-Cola and PepsiCo, bought in various parts of India, and found them to contain pesticide residues far above limits recommended by the government's Bureau of Indian Standards (BIS). Mr Ramadoss was, in effect, backing the cola giants in their rebuttal of CSE's claims.

For some foreign firms the controversy illustrates much that is troublesome about doing business in India's argumentative democracy. On this view, CSE, a small, 100-strong outfit led by the articulate and charismatic Ms Narain, wields a disproportionate influence. It is able to do so by tapping the deep vein of Indian suspicion of globalisation in general and of big multinationals in particular. What better exemplifies the evils of Coca-Colanisation, say protectionists, than cola itself? It is sweet, alluring and rather glamorous. But not only does it make you fat and rot your teeth—it turns out to be poisonous, too. There is even a Bollywood film, “Corporate”, inspired by CSE's cola battles.

Ms Narain, however, is adamant that CSE is not opposed to foreign investment, economic liberalisation or private entrepreneurship. Rather, her organisation's stress is on the need, as the economy opens up, “to strengthen oversight and the institutions that look after the public good”. Its real target is neither Coca-Cola nor PepsiCo, but the government and its alleged failure to protect public health. CSE is “in permanent opposition”. This provides it with powerful, if shifting, political allies. The credibility won by an impressive record of accuracy and probity has made both CSE and Ms Narain forces to be reckoned with, by government and multinationals alike.

Its latest soft-drinks report has led the governments of several Indian states to ban the sale of PepsiCo's and Coca-Cola's products in schools and government offices. One state, Kerala, has introduced total prohibition, which the companies have challenged in the courts. The bans prompted Franklin Lavin, a senior American trade official, to weigh in, lamenting this “setback” for the Indian economy. “At a time

when India is working hard to attract and retain foreign investment," he noted, "it would be unfortunate if the discussions were dominated by those who did not want to treat foreign companies fairly."

The damage done to sales through government action, however, is less important than the bad publicity. Neither company will quantify the losses it has suffered. But both have mounted campaigns advertising the safety of their products. They say both that the CSE test results are wrong, and that, even if true, the levels of pesticide are negligible and of no danger at all to human health. They point out that rice, for example, is permitted to contain 34,180 times more pesticide residues than bottled water, which has, they say, similar levels to fizzy drinks. They insinuate ulterior motives behind CSE's campaign.

Ms Narain argues that some residues must be tolerated in food, since farmers use pesticides to grow crops. But for soft drinks, she says, there is no excuse for the presence of pesticides, since the technology exists to clean the water quite cheaply. An earlier CSE report in 2003 that found pesticide traces in the companies' products led to the establishment of a joint parliamentary committee to investigate. This found that there were indeed pesticides in the carbonated drinks, and directed the government to draw up standards.

The BIS has since done that, but the standards have not been implemented. PepsiCo argues that you can reliably test for residues in the water, sugar and concentrate that go into its drinks, but not in the drinks themselves. Yet, like Coca-Cola, which has produced reports from a British laboratory apparently contradicting CSE's findings, it would accept such "final-product standards" if "a robust enough process" were available. It was the BIS's failure to implement such standards—blamed by Ms Narain on the health ministry, under pressure from the cola firms—that prompted CSE to undertake its follow-up study.

Passionate rigour

In the 25 years since Ms Narain went to work as a volunteer with CSE's founder, Anil Agarwal, it has had successes that must make it the envy of other activist groups. Most famously, the group's campaign against air pollution in the 1990s was largely credited with the decision to use compressed natural gas as fuel in Delhi's buses, taxis and three-wheeled "autorickshaws". Normally, says Ms Narain, "the scale of the disaster overshadows the scale of the intervention." In this, however, CSE made a difference. She is just as proud, however, of the way the group has brought rainwater-harvesting to the centre of the debate about how to cope with India's worsening water shortage—an achievement that won CSE last year's Stockholm water prize.

Ms Narain joined CSE from high school, because she was drawn to Agarwal's vision of allying "the rigour of science to the passion of journalism", and inherited his mantle when he died in 2002. At the time, some doubted whether CSE could maintain its standing. But this week, even Coca-Cola came close to suing for peace, leaking a letter "respectfully" disagreeing with the CSE laboratory's findings, but asking for talks. CSE agreed—provided the agenda is confined to the implementation of the final-product standard. A non-scientist, Ms Narain is proud of having one useful journalistic habit: never being afraid to ask a stupid question. So far, at least, CSE has not given many stupid answers.

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About sponsorship

The newspaper industry

More media, less news

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Newspapers are making progress with the internet, but most are still too timid, defensive or high-minded

THE first thing to greet a visitor to the Oslo headquarters of Schibsted, a Norwegian newspaper firm, is its original, hand-operated printing press from 1856, now so clean and polished it looks more like a sculpture than a machine. Christian Schibsted, the firm's founder, bought it to print someone else's newspaper, but when the contract moved elsewhere he decided to start his own. Although Schibsted gives pride of place to its antique machinery, the company is in fact running away from its printed past as fast as it can. Having made a loss five years ago, Schibsted's activities on the internet contributed 35% of last year's operating profits.

News of Schibsted's success online has spread far in the newspaper industry. Every year, says Sverre Munck, the executive vice-president of its international business, Schibsted has to turn away delegations of foreign newspaper bosses seeking to find out how the Norwegians have done it. “Otherwise we'd get several visits every month,” he says. The company has used its established newspaper brands to build websites that rank first and second in Scandinavia for visitors. It has also created new internet businesses such as Sesam, a search engine that competes with Google, and FINN.no, a portal for classified advertising. As a result, 2005 was the company's best ever for revenues and profits.

Unfortunately for the newspaper industry, Schibsted is a rare exception. For most newspaper companies in the developed world, 2005 was miserable. They still earn almost all of their profits from print, which is in decline. As people look to the internet for news and young people turn away from papers, paid-for circulations are falling year after year. Papers are also losing their share of advertising spending. Classified advertising is quickly moving online. Jim Chisholm, of iMedia, a joint-venture consultancy with IFRA, a newspaper trade association, predicts that a quarter of print classified ads will be lost to digital media in the next ten years. Overall, says iMedia, newspapers claimed 36% of total global advertising in 1995 and 30% in 2005. It reckons they will lose another five percentage points by 2015.

Even the most confident of newspaper bosses now agree that they will survive in the long term only if, like Schibsted, they can reinvent themselves on the internet and on other new-media platforms such as mobile phones and portable electronic devices. Most have been slow to grasp the changes affecting their industry—“remarkably, unaccountably complacent,” as Rupert Murdoch put it in a speech last year—but now they are making a big push to catch up. Internet advertising is growing rapidly for many and is beginning to offset some of the decline in print.

Newspapers' complacency is perhaps not as remarkable as Mr Murdoch suggested. In many developed countries their owners have for decades enjoyed near monopolies, fat profit margins, and returns on capital above those of other industries. In the past, newspaper companies saw little need to experiment or to change and spent little or nothing on research and development.

Set in print

At first, from the late 1990s until around 2002, newspaper companies simply replicated their print editions online. Yet the internet offers so many specialised sources of information and entertainment that readers can pick exactly what they want from different websites. As a result, people visited newspaper sites infrequently, looked at a few pages and then vanished off to someone else's website.

Another early mistake was for papers to save their best journalists for print. This meant that the quality of new online editions was often poor. Websites hired younger, cheaper staff. The brand's prestige stayed with the old medium, which encouraged print journalists to defend their turf. Still today at *La Stampa*, an Italian daily paper owned by the Fiat Group, says Anna Masera, the paper's internet chief, print journalists hesitate to give her their stories for fear that the website will cannibalise the newspaper.

For the past couple of years, however, newspapers have been thinking more boldly about what to do on the internet. At its most basic, that means reporting stories using cameras and microphones as well as print. The results can be encouraging. America's Academy of Television Arts & Sciences has introduced a new Emmy award for news and documentaries on the internet, mobile phones and personal media players. Five of the seven nominations for this September have gone to reports by nytimes.com and washingtonpost.com.

For most newspaper companies in the developed world, 2005 was miserable

It also means being more imaginative. In the late 1990s, the early years of the *Wall Street Journal*'s website, one of the paper's journalists came up with the novel idea of posting online a 573-page document that backed up an article. “It wasn't the most compelling content,” remembers Neil Budde, its founding editor and now general manager of news at Yahoo!, an internet portal. But it was a start. Now newspapers have a better idea of what works online. This is not always traditional journalism as taught in journalism school. Brian Tierney, who became owner of the *Philadelphia Inquirer* after Knight Ridder sold it last year, noticed that a popular item on the paper's website has been a video of Mentos mints causing a 2-litre bottle of Diet Coke to explode into the air. “We should do more of that,” he says.

More newspaper companies are likely to treat their websites as a priority these days. “Before, newspapers used their second- and third-rate journalists for the internet,” says Edward Roussel, online editorial director at Britain's Telegraph Group, “but now we know we've got to use our very best.” Many companies are putting print journalists in the same room as those who work online, so that print writers are working for the website and vice versa. Some insist that this is a mistake. “It is completely wrong not to separate web and paper operations,” says Oscar Bronner, publisher of *Der Standard*, a daily paper in Austria. Print journalists don't have time to reflect and analyse properly if they also have to work for the website, he argues.

Running to stand still

How impressive are the results of these online experiments? At lots of newspaper companies, internet advertising is growing by at least 30% a year, and often more. At *la Repubblica* in Italy, for instance, the paper's website gets about 1m visitors a day, nearly double the circulation of the printed paper. The value of online ads grew by 70% in the first half of 2006. For the first three months of 2006, the Newspaper Association of America announced that advertising for all the country's newspaper websites grew by 35% from the same period in 2005, to a total of $613m. But to put that in perspective, print and online ads together grew by only 1.8%, to $11 billion, because print advertising was flat. At almost all newspapers the internet brings in less than a tenth of revenues and profits. At this point, says Mr Chisholm, “newspapers are halfway to realising an audience on the internet and about a tenth of the way to building a business online.”

The big problem is that readers online bring in nowhere near the revenues that print readers do. All but a handful of papers offer their content free online, so they immediately surrender the cover price of a print copy. People look at fewer pages online than they do in print, which makes web editions less valuable to advertisers. Gavin O'Reilly, president of the World Association of Newspapers in Paris, says that print

readers are much more valuable than online readers, who use newspaper websites in a “haphazard and fragmented way”. Vin Crosbie, of Digital Deliverance, a consulting firm, recently estimated that newspapers need between 20 and 100 readers online to make up for losing just one print reader. Many newspaper bosses would say this is too pessimistic: one British paper, for instance, reckons that one print reader is worth ten online. But even that is a daunting multiple.

Newspapers today concentrate on only two parts of the market for internet advertising. They earn little or nothing from internet search, which is bigger than either display or classified ads. Especially in America, newspapers rely heavily on classified ads online and have fewer display ads, says Mr Crosbie. Elsewhere, the pattern may be reversed, but newspapers still lack a broad base of internet-advertising revenue; for instance, Juan Luis Cebrián, chief executive of Grupo PRISA, the owner of *El Pais*, says the Spanish newspaper is enjoying strong growth in display advertising, but has few online classified ads.

On the other hand, newspapers' websites have higher profit margins than print does, because they have no newsprint or distribution to pay for. The *Wall Street Journal* is one of the few papers that charges for its content online. Others may follow suit, especially if growth in advertising slows. The online business model is still in flux, argues Richard Zannino, chief executive of Dow Jones & Company, publisher of the *Wall Street Journal.* The average price of ad space in the printed paper is now only three times higher than on Wall Street Journal Online, says Mr Zannino, compared with six to seven times for the industry as a whole in America. He expects the relative price of an internet ad to rise.

The secret of making money online, according to Schibsted, is not to rely on news aggregators like Google News and Yahoo!. Three-quarters of traffic to the websites for Schibsted's *VG* and *Aftonbladet* comes through their own home-pages and only a quarter from other websites. “If visitors come from Google to stories deep in the paper and then leave,” explains Mr Munck, “Google gets the dollars and we get only cents, but if we can bring them in through the front page we can charge €19,000 [$25,000] for a 24-hour banner ad.” In spite of this, most newspapers still depend on news aggregators.

The danger for newspapers is that all their efforts on the internet may only slow their decline. Doing the obvious—having excellent websites and selling ad space on them—may not be enough. The papers with the best chance of seeing their revenues grow are those experimenting with entirely new businesses online and off.

Readers online bring in nowhere near the revenues that print readers do

Some are launching profitable new ventures that are only indirectly related to journalism. Schibsted, for instance, has started an online slimming club, called Viktklubben.se, using its *Aftonbladet* newspaper brand. Viktklubben.se charges its 54,000 members €50 each every three months. The Telegraph Group in Britain uses the *Daily Telegraph* to sell readers everything from goose-down pillows to Valentine's Day topiary baskets to insurance. The division now contributes close to a third of the firm's total profits, according to an executive at the company. “Newspapers will have to get into new businesses and extract more value from their audience,” says Paul Zwillenberg, global head of media and entertainment at OC&C Strategy Consultants in London. Examples like these are fairly rare, though. Most newspaper companies still insist that producing high-quality journalism and distributing it in new ways will be enough to keep them growing.

It's the journalism, stupid

Consultants advising newspaper groups argue that they need to adjust their output. Research into the tastes of mainstream newspaper readers has long shown that people like short stories and news that is relevant to them: local reporting, sports, entertainment, weather and traffic. On the internet, especially, says Mr Chisholm, they are looking to enhance their way of life. Long pieces about foreign affairs are low on readers' priorities—the more so now that the internet enables people to scan international news headlines in moments. Coverage of national and international news is in any case a commodity often almost indistinguishable from one newspaper to the next. This impression is exacerbated as papers seek to save money by sacking reporters and taking copy from agencies such as Reuters. “Our research shows that people are looking for more utility from newspapers,” says Sammy Papert, chief executive of Belden Associates, a firm that specialises in research for American newspapers. People want their paper to tell them how to get richer, and what they might do in the evening.

Few newspaper companies like to hear this and they tend to ignore the research they have paid for. Most journalists, after all, would rather cover Afghanistan than personal finance. But some are starting to listen. Gannett, the world's biggest newspaper group, is trying to make its journalism more local. It has invested in “mojos”—mobile journalists with wireless laptops who permanently work out of the office encamped in community hubs. Morris Communications, based in Augusta, Georgia, recently launched a new home-delivered free paper for Bluffton, a fast-growing area of Beaufort, South Carolina, called *Bluffton Today*, with a page of national news, one of international and the rest “hyper-local”. Its website has pictures and blogs from readers and detailed community information. “Back in the 1940s and 1950s papers used to be full of what we call ‘chicken-dinner news’—the speakers at civic clubs and whose daughter won a blue ribbon in canoeing,” says Will Morris, the firm's president. “But then newspapers started to lose touch with their readers.”

The more adventurous newspaper companies, like Morris Communications, are showing themselves willing to embrace content and opinions from readers. Rather like OhmyNews, a Korean “citizen-journalism” operation that many people think heralds the future for news-gathering, Schibsted exhorts its readers to send information and photographs. When a mentally disturbed man ran amok and killed people on a tram in Oslo in 2004, it was a reader with a mobile-phone camera who sent *VG* its front-page picture of the arrest. At *Zero Hora*, a Brazilian paper owned by RBS Group, the circulation department asks 120 readers what they think of the paper every day and Marcelo Rech, the editor, receives a report at 1pm. “They usually want more of our supplements on cooking and houses and less of Hizbullah and earthquakes,” says Mr Rech.

Still more changes to the content and form of newspapers are likely as businesspeople gain power at newspaper firms. “You won't be able to have many sacred cows...Newspaper companies will have to become more commercial,” says Henrik Poppe, a partner in McKinsey. Some leading titles, including the *Wall Street Journal*, have recently decided to put advertisements on the front page for the first time. For the moment, the trend towards greater commercialism is most evident in America, but is likely to spread elsewhere as newspaper companies struggle financially. At the *Philadelphia Inquirer*, Mr Tierney, a former advertising executive, shocked people by announcing that he would bring in an advertising person to redesign the paper—traditionally a task strictly for editorial. In future, businesspeople are likely to insist that newspapers adopt practices that are already standard in other industries. Mr Tierney, for instance, says it is unreasonable to expect everyone from the age of 18 to 88 to buy the same product. The industry needs to sell papers for different age and demographic groups, he says.

The most shocking development for traditional newspapers has been the wild success of free dailies, which like the internet have proved enormously popular with young people. Roughly 28m copies of free newspapers are now printed daily, according to Metro International, a Swedish firm that pioneered them in 1995. In markets where they are published, they account for 8% of daily circulation on average, according to iMedia. That share is rising. In Europe they make up 16% of daily circulation. Metro

calculates that it spends half the proportion of its total costs on editorial that paid-for papers do. In practice that means a freesheet with a circulation of about 100,000 employing 20 journalists, whereas a paid-for paper would have around 180. Metro's papers reach young, affluent readers and are even able to charge a premium for advertising in some markets compared with paid-for papers.

“The biggest enemy of paid-for newspapers is time,” says Pelle Törnberg, Metro's chief executive. Mr Törnberg says the only way that paid-for papers will prosper is by becoming more specialised, raising their prices and investing in better editorial. People read freesheets in their millions, on the other hand, because *Metro* and others reach them on their journey to work, when they have time to read, and spare them the hassle of having to hand over change to a newsagent.

Some traditional newspaper firms dismiss free papers, saying they are not profitable. Carlo De Benedetti, chairman of Gruppo Editoriale L'Espresso, publisher of *la Repubblica*, for instance, says that Metro loses money in Italy and that other freesheets are struggling. Globally, however, Metro has just become profitable.

Consultants say that lots of traditional newspaper companies are planning to hold their noses and launch free dailies. In France, for instance, *Le Monde* is planning a new free daily, and Mr Murdoch's News International is preparing a new free afternoon paper for London, to be launched next month. Deciding whether or not to start a freesheet, indeed, perfectly encapsulates the unpalatable choice that faces the paid-for newspaper industry today as it attempts to find a future for itself. Over the next few years it must decide whether to compromise on its notion of “fine journalism” and take a more innovative, more businesslike approach—or risk becoming a beautiful old museum piece.

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House prices in America

Gimme shelter

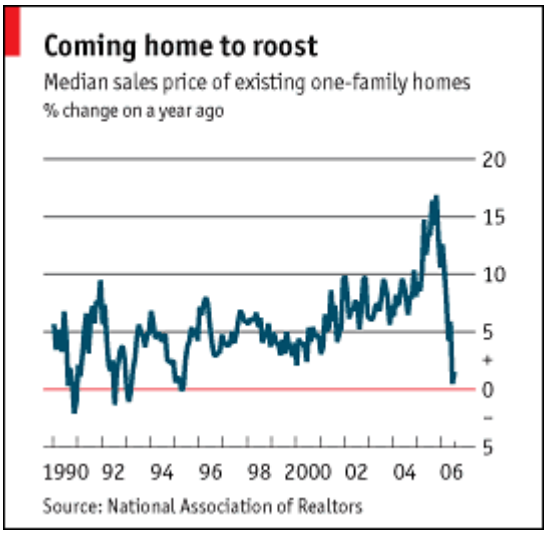
Aug 24th 2006 | CHICAGO
From The Economist print edition

Now that the party is over, how bad will the hangover be?

Getty Images

AMERICA'S housing market has banged its head on the ceiling; now investors and homeowners alike are wondering how soon—and how hard—it will hit the floor. On August 23rd the latest figures showed that in July prices of previously owned homes rose at their slowest pace in more than 11 years. In the past 12 months they are still (just) up in nominal terms (see chart), but down in real terms. The number of units sold fell by 11.2% from a year earlier, and the stock of unsold homes reached its highest level since 1993. Markets were waiting for figures on prices of new homes, due out the following day. But the softness was enough to stoke the worries that have been mounting about how badly the end of America's housing boom will hurt the rest of the economy.

Falling demand is already pounding the construction industry. Housing starts, seasonally adjusted, fell by 2.5% in July and were 13.3% lower than a year earlier. Building permits for privately owned houses were down by 20.8%, year on year. And although the number of homeowners applying to refinance their mortgages has risen over the past five weeks, the demand for loans to buy new homes has fallen by nearly a quarter in the past year. It is little wonder, then, that an index of housebuilders' confidence has plunged by 56% since June 2005 to a 15-year low.



The slump has been especially harsh at the high end, because rich buyers were at the forefront of the housing boom over the past few years. Toll Brothers, the biggest builder of luxury homes, said this week that in the latest quarter its orders for new units were almost half those of the previous year. The slowdown is also a worry for home-improvement chains such as Home Depot and Lowe's, as well as for other businesses that have benefited from the housing boom.

If most of the pain remains confined to those bits of the economy, America will probably emerge from the end of the housing boom in decent shape. What has spooked investors of late is the risk that slowing

demand for homes will be severe enough to blast a wider hole in consumer demand.

The biggest worries involve the parts of America that have seen the frothiest price increases over the past few years. Those include cities in the south-west with fast-growing populations, such as Las Vegas, and places that attract lots of wealthy elderly people who want to retire. Over the past five years, house prices have more than doubled in California, Nevada, Hawaii and Florida, for example, but have increased by less than one-third in some parts of the south and the Great Plains, according to a house-price index kept by the federal government. In some places, such as Detroit and other hard-hit towns in the rust belt, prices are falling year on year.

That regional variation is comforting, because it suggests that parts of the country are in good shape. The trouble, says Ethan Harris, Lehman Brothers' chief economist in America, is that, measured by value, the regions that have experienced frighteningly rapid house-price increases account for about one-third of the country's residential property. So if prices were to fall sharply in those areas, it would take a bite out of Americans' wealth.

How far might prices fall? Since house-price fundamentals depend so much on the wider economy, especially incomes and borrowing rates, opinions vary. Housing bears chiefly fret over two important measures. One ratio—house prices now equal 3.8 times median income—seems too high by historical standards. The other—rental income to house prices—seems too low to offer property owners a decent return, suggesting again that houses are badly overpriced.

Nearly everyone now expects prices to level off for a bit and slow the economy, but optimists find those valuation measures only modestly worrying. The high ratio of house prices to incomes is less alarming, they argue, because low mortgage rates have held down the real cost of owning those homes. That has not changed much, despite a rise in interest rates over the past couple of years. American homeowners remain exposed to a sharp rise in long-term interest rates—say, if foreign investors in American treasury bonds head for the exits—but otherwise are not obviously in trouble.

Also, although rents have failed to keep pace with the rising price of “equivalent” houses, that comparison partly reflects a failure to adjust for the growing quality of the homes Americans have been buying—these are increasingly being fitted with better creature comforts, such as marble countertops. As house prices peak, moreover, Americans seem now to be more willing to rent; so long as incomes keep growing, rising rents could raise the floor under the value of many houses.

Another argument of optimists is that house-price weakness in Britain and Australia, two other countries that worried bubble watchers, has proved much less damaging than many expected. Tim Bond, of Barclays Capital in London, points out that both countries' economies performed so well after house prices peaked that their central banks found it necessary to raise interest rates again afterwards. Yet America has depended particularly heavily on buoyant house prices as a source of jobs and cash that can be extracted through equity withdrawals.

Even if prices do fall in some regions, forecasters do not yet think that will trigger a recession. But everyone on the housing ladder is hoping that the floor will not turn out to be a long way down.

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Boutique banks

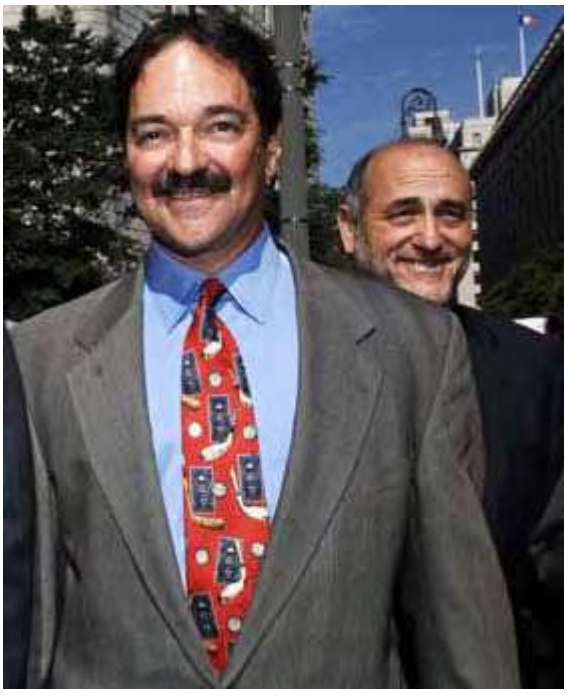
Niche market

Aug 24th 2006 | NEW YORK
From The Economist print edition

Times are good for nifty M&A advisers

FELIX ROHATYN, a former ambassador to France and a celebrated corporate adviser who helped New York City avert bankruptcy in the 1970s, made his name—and fortune—on a keen sense of judgment. So the announcement on August 22nd that he is winding down his small advisory firm to join Lehman Brothers, a large Wall Street investment bank, could be viewed as a rather bleak assessment of the future of boutique banking.

AP



Back among friends

This, says Mr Rohatyn, would be the wrong interpretation. His decision was based on his age (Mr Rohatyn is 78) and his reluctance to expand his company. So he opted to work with his old friend Richard Fuld, Lehman's chairman.

Mr Rohatyn is not the only well-known banker making a switch these days—but he is one of the few going to a large institution. Many are moving the other way to niche firms where business is good and there are fewer of the conflicts of interests that larger investment banks suffer from. The latest high-profile banker with his eye on a boutique may well be Frank Quattrone (pictured), the former Credit Suisse First Boston rainmaker. Also on August 22nd, a New York judge approved a court settlement that would eventually allow him to avoid another trial and return to the securities industry. The banker who made his name in the 1990s tech boom, but was accused of obstructing justice in 2003, might set up an advisory firm.

For such people, the boutique business is particularly attractive because of the robust mergers and acquisitions market. According to Thomson Financial, a research firm, independent boutiques advised on 55% of the 20 biggest mergers announced last year. In 2000 they accounted for less than a third, all done by just two companies.

For some, it has proved to be a goldmine. In mid-August Evercore, a New York boutique, raised $83m in a successful stockmarket listing. The next day Keefe, Bruyette & Woods, a small, financial-services investment bank, filed to raise $100m in an offering. It hopes investors will give it a lofty Evercore-like valuation.

The most profitable boutiques are those focusing on M&A advisory work. They owe their success as much to what they choose not to do—lending, trading, providing research, underwriting—as to the things they do well.

Unlike “full service” boutiques, advisory firms need very little capital to run their businesses. That means higher margins than rivals with expensive overheads. Greenhill, a New York-based firm that went public in 2004, has more than doubled revenues and profits this year. Its share price has soared 221% since it listed. The model also means boutiques can compete with the deep pockets on Wall Street. “Advisory is not a scale business,” says Scott Bok, co-president of Greenhill.

But do such boutiques have staying power? Most are small, private partnerships that generate business by mining the plentiful contacts of a handful of seasoned professionals. In good years they close a few big deals and rake in the money. They then survive bad years by advising companies in trouble on how to restructure. But the partnerships also need to grow to retain young, ambitious bankers. Mr Rohatyn noted this when explaining his decision to get out of boutiques. At his age, he did not have the will to expand. That meant he could not count on his staff to stay with him.

The advisory boutiques that have opted for growth (and riches) by going public face different dangers. They must negotiate a cyclical M&A market and potentially impatient investors. They are also setting their sights on markets outside America. Evercore recently announced acquisitions and alliances in Mexico, Japan and Britain. Greenhill, which already has a strong foreign presence—over half its advisory revenue came from outside America last year—is offering M&A advice in industries outside its traditional bailiwick. Both have private-equity businesses, which might take up the slack during a slowdown. But there is also nothing better than having cash in the bank.

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IMF quotas

Monetary misquotations

Aug 24th 2006
From The Economist print edition

A long-overdue shake-up at the IMF

THE IMF was founded during a moment of high statesmanship at Bretton Woods in New Hampshire. But when they divvied up the power in their new creation, its founders practised some low numerical arts. Each country's "quota" of votes was calculated according to an elaborate formula, which blended the economy's size, reserves, openness and volatility. But according to the man who invented it, this formula was a subtle contrivance, carefully designed to deliver a result pre-cooked by the Americans.

Singapore is a long way from New Hampshire. But as the fund prepares for its annual meeting in the Asian city-state next month, it is still trying to rid itself of the Bretton Woods formula and its many derivatives. This week, the fund's executive board heard the first formal proposal on quota reform since Rodrigo de Rato, the IMF Managing Director, unveiled his medium-term strategy to revamp the organisation last September.

The IMF's quotas are a distorted mirror of today's economy, partly because they must do three things at once. They determine how many votes a member can cast on the board, how much money it must put into the fund's coffers, and how many dollars it can take out before attracting penalty interest rates. They were last revised in January 1999. As a result, many countries are now underrepresented, even by the fund's odd formulas, and others find their clout falls far short of their weight in world output (see chart).

Mr de Rato wants to fix this problem in two steps over the next two years. First, he wants to sprinkle extra votes on a handful of underrepresented countries (probably China, South Korea, Mexico and Turkey, although he has yet to confirm this). Second, he wants a broader reallocation of votes and a new formula to calculate them.

This second step will be awkward, because votes cannot be taken from members that do not want to cede them. Quotas bring out the petty side of politicians, who obsess over every one of their 107,635 votes (the number cast by Britain and, curiously, by France as well), as if they were 107,635 square miles of territory.

The Americans want a new formula to give pride of place to GDP, the least arbitrary measure of an economy's weight in the world. It also suits America, which accounts for almost a third of world output, but casts only 17% of the votes. Yet such a formula would give many poor countries, which account for a tiny share of the world economy but a big share of the fund's work, still less say in its affairs.

To rectify this, each member may be given more "basic votes", a flat allocation, awarded regardless of economic size. These basic votes once made up over 15% of the total, but now represent just 2%, thanks to the IMF's growth. Tim Adams, who looks after international affairs at America's Treasury, seems happy to see these votes doubled or even tripled. "We don't want to see African voices dissipated any more than they are," he says.

Of course, a country's share of the vote does not translate one-for-one into a share of the power. Many

big IMF decisions require an 85% majority. Hence a country with 15.1% of the vote is indispensable. A country with 14.9% can be sidelined.

Moreover, few decisions at the fund are ever put to a formal ballot. The executive directors, who meet around a U-shaped table about three days a week, are meant to reach their decisions by consensus. According to Leo Van Houtven, a former secretary of the IMF, a director's influence depends on more than the votes he wields. “Technical expertise is important, persuasiveness counts a great deal, diplomacy, sense of timing, and length of service all have an impact”. None of those virtues will appear in the fund's new formula. But they might just help to shape it.

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Corporate governance in Brazil

Oi!

Aug 24th 2006 | SÃO PAULO
From The Economist print edition

Brazil's shareholding elite receives a black eye from the regulator

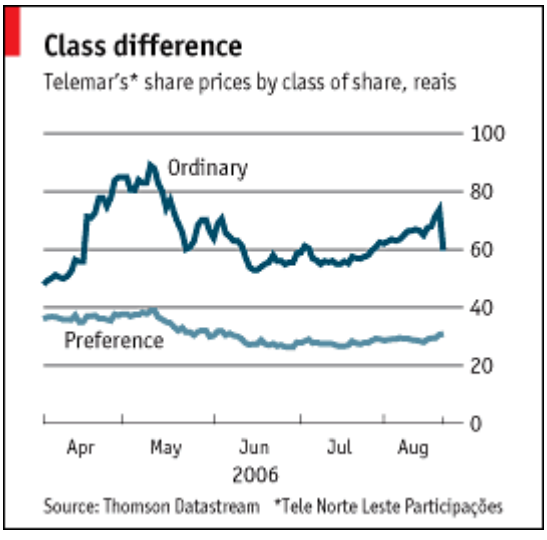
IT SOUNDED like the sort of thing investors would normally approve of. Telemar, Brazil's biggest telecoms company, decided to get rid of its clunky shareholding structure, involving three different companies and five classes of shares. In its stead, a single enterprise with a svelte new name—Oi—would issue one class of shares on the *Novo Mercado*, the part of Brazil's stockmarket with the most demanding corporate-governance standards. With this, Telemar would join the fast-growing club of Brazilian enterprises that offer all shareholders perks normally enjoyed by only a few: voting rights.

But there was a snag. In embracing the new shareholder ethic, Telemar's controllers sought to profit from the old one. Under the share swap proposed in April, investors who now control the company with a financial stake of just 14.7% would own 31% of Oi (assuming that all shareholders participate); other voting shareholders would see their stake rise from 13.8% to 23.7%. But investors in non-voting "preference shares" would be heavily diluted, with their stake tumbling from 71.5% to 45.4%. To sweeten the transaction still more for controlling shareholders, Telemar allowed them to sell shares through a secondary offering.

A stockmarket fall in May and June derailed the secondary share issue; Telemar cancelled it on August 17th. Meanwhile, Brandes, a California-based fund manager that owns nearly 9% of Telemar's American Depository Shares, complained to the Securities and Exchange Commission in Washington, DC, about the terms of the share swap. On August 18th Brazil's securities commission, the CVM, intervened.

In a ruling that interpreted Brazil's corporate law, but did not mention Telemar by name, it said that in mergers which unjustifiably benefit one class of shareholder at the expense of another, the beneficiaries may not vote on the transaction. The decision knocked nearly 20% off the value of Telemar's main voting shares on August 21st (see chart) and threw its restructuring into disarray. Investors cheered an important victory in a long campaign to improve the rights of minority shareholders.

The CVM gave Telemar's controlling clique, in effect, a choice between offering equal conditions to non-voting shareholders or letting them decide whether to approve the transaction. Nonetheless, Telemar decided to press ahead. The scheme is "win-win", says Roberto Terziani of Telemar: the owners swap power for a bigger economic stake, the preference shareholders do the reverse.



Telemar's decision will probably start a negotiation in which preference shareholders now have a much stronger hand, says Alexandre Garcia of Ágora, a brokerage. It also sets a precedent in a system in which voting shares can account for as little as a third of a company's equity, and just half of that is needed for control. Shareholder equality is especially important to foreign investors, who account for 30-40% of the turnover in the Brazilian stockmarket. The *Novo Mercado*, which insists on one class of voting shares, has expanded from two companies in 2004 to 34 today. Telemar's proposed migration to the *Novo Mercado* was preceded by Embraer, Brazil's aeroplane manufacturer, and Perdigão, a food company. No one complained, because non-voting shareholders won attractive terms.

Minority investors are now looking to the CVM to take up their cause in another fight, with Mittal Steel, a

global steel company that recently took over another, Arcelor. Voting shareholders of Arcelor's main Brazilian subsidiary claim that they are entitled to the same offer as the company's controlling shareholders were. The CVM has provisionally ruled in their favour. By some estimates, that could cost Mittal an extra €5 billion ($6.4 billion) or so. On a visit to Brazil on August 21st Lakshmi Mittal, its boss, said no, on the grounds that Mittal had merged with Arcelor rather than taking it over. The Brazilian battle for shareholder rights is not yet over.

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Hyperinflation in Zimbabwe

Bags of bricks

Aug 24th 2006 | JOHANNESBURG
From The Economist print edition

Zimbabweans get new money—for what it's worth

A MOST unusual shopping spree has just taken place in Zimbabwe. At the end of July the central bank devalued the Zimbabwean dollar (Z$) by more than half and then announced that the currency would also lose three zeros. This is the bank's latest idea to fight hyperinflation hovering around 1,000% a year—the highest in the world—and to attract cash into the banking system. Zimbabweans had until August 21st to get rid of the old bearer cheques used as banknotes. Whatever they could not exchange for the new currency, they spent. Gideon Gono, the governor of the central bank, suggested that the change be called “from zero to hero”.

AP

In June it could buy a loaf of bread. Now it is worthless

Banks were swamped with customers trying to hand in their cash before the deadline. Anyone willing to deposit more than Z$100m ($400) a week—Z$5 billion for businesses—had to explain where the money came from or risk having it forcibly converted into one-year bonds or confiscated. New bearer cheques could be withdrawn against what had been deposited, subject to strict ceilings. The police searched people for large amounts of cash at roadblocks. Those stuck with extra money had to spend it before it became worthless. Shoppers frantically filled trolleys before the deadline.

Spiralling inflation has forced Zimbabweans to use bags to carry cash: wallets are a distant memory. It takes time for cash machines to spit out the daily maximum of Z$250m—or Z$250,000 in new money—that people are allowed to withdraw, so queues have become common. Zimbabweans have become used to dealing in “bricks”, as piles of banknotes worth Z$10m are known. Businesses send their money by trucks to banks' special bulk-cash facilities. Computer and accounting systems have been close to collapse, struggling to cope with sums in the trillions.

It is hard to see how scrapping three zeros and forcing people to bank their cash will stop prices spiralling. The central bank is calling for stringent monetary and fiscal policy, but has no power to force the government to tighten the purse strings. It partly blames inflation on speculation in the property and parallel foreign-exchange markets, but it has shown little restraint in printing money. Zimbabwe, the region's breadbasket before the government launched a disastrous land reform in 2000, is now hobbled by shortages of food, petrol, other basic commodities and hard currency. The economy has been contracting fast, and unemployment is estimated at over 70%. Many Zimbabweans rely on support from the 3m relatives or friends thought to have left the country.

Zimbabwe's woes cast serious doubt over the integration plans of the 14-country Southern African Development Community, which held a summit in Lesotho last week. Those attending voiced concern

over Zimbabwe, which used to be the region's second-largest economy after South Africa. But it ended with the usual promises to speed up integration, create a free-trade zone within two years and establish a common currency by 2018. A common market, let alone a monetary union, looks like a distant dream. Probably not for the central bank's Mr Gono though: he expects Zimbabwe to have single-digit inflation by the end of 2008.

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Kidnap insurance

A king's ransom

Aug 24th 2006
From The Economist print edition

Insuring against kidnap and extortion is a growth industry

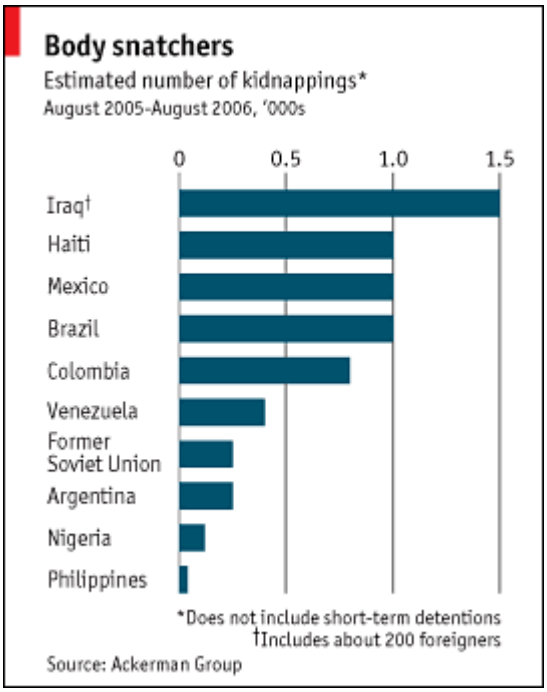
THE kidnapping of Charles Lindbergh's infant son from his nursery riveted America and the world in 1932. Mr Lindbergh's celebrity as an aviator prompted police and the FBI to conduct a big investigation and a ransom was ultimately paid. Sadly, the baby was later found dead, buried in the woods of New Jersey. As well as leaving a lingering imprint on the American psyche, the Lindbergh kidnapping has had a lasting affect on the global insurance industry. After the abduction, Lloyd's of London began selling some clients kidnap and ransom insurance.

More than 70 years later, kidnapping, ransom and extortion insurance (known as “K&R” in the industry) is a growing niche with annual premiums of about $250m. A feeling that the world has become less safe after the terror attacks of September 2001, as well as a flurry of kidnaps around the world, has fuelled demand, insurers say. Inquiries surge so predictably after well publicised crimes that “I can almost plot it on a chart”, says one insurance executive. Hiscox (a Lloyd's syndicate), AIG and Chubb are among the leading underwriters.

At least 60% of America's largest 500 companies carry K&R policies, although they are much less common among smaller firms. Not only top executives are covered; field engineers working in remote places are much more likely to be taken hostage. Private bankers have recently begun encouraging clients—from plutocrats to pop stars—to buy the insurance too.

As business has become global, so the kidnapping threat has globalised (see chart), although it is hard to quantify precisely because many abductions go unreported. Nigeria is one hot spot: this month at least 17 foreigners—ranging from American and British citizens to Filipinos and Ukrainians—have been seized. Oil giants that operate in the Niger Delta, including Royal Dutch Shell, are reconsidering staffing levels. An oil workers' union is threatening to pull members out after a botched attempt on August 20th to rescue a Nigerian Shell employee who had been seized.

The people doing the snatching range from thuggish revolutionaries, like the FARC in Colombia, to thuggish criminals in it just for the money. In Argentina and Mexico police have been charged with abductions. A growing trend in China involves what insurers politely call “unwarranted detention”: local firms try to influence foreign executives during their business negotiations by having them placed under house arrest, thanks to the co-operation of friends in the police or local government.



Those who pay to protect themselves are typically covered for everything from ransom to lost wages, death and dismemberment, travel costs for family and colleagues, and counselling. Crisis management is often included. Clients covered by Chubb, for instance, can turn to the Ackerman Group if one of their employees or relatives is nabbed. The Miami-based firm will handle everything from negotiations with the kidnappers to dealing with police or officials and “moving money around”, says Mike Ackerman, a former CIA operative who heads the company. His team includes other former spies, a Green Beret colonel, an FBI veteran and an ex-French Legionnaire. “We're very hands on, but we take our marching

orders from the victim corporation," Mr Ackerman says.

How much a client must pay for such cover depends on its size, type of business, prominence, geographic scope and history (including past kidnappings). A small, mid-western manufacturer might pay $500 a year for $1m of liability cover, while a big multinational may be charged $50,000 for $25m in cover.

Discretion is important. Insurers reserve the right to cancel a contract if a client discusses it, even among friends. This is partly because in some places, an insured person may attract kidnappers—even if he is poor, the insurer is rich. Although K&R cover may not reduce the risk of being kidnapped, insurers say it does (barring the odd bungled rescue) cut the chances of being killed.

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Share tipping

Pump and dump

Aug 24th 2006
From The Economist print edition

Penny stocks are being pushed around by spammers. Investors beware

HLV CAPITAL is a company that prides itself on its share-trading expertise. That must have made it particularly galling when the publicly listed company fell victim to a popular trading scam this month that knocked 37% off its share price in a few days. Written with the usual blizzard of capital letters and exclamation marks, spammers issued unsolicited e-mails telling investors to buy HLV Capital's shares "First Thing" on August 8th. "It's going to explode!", the headline said. What the tipsters didn't say was that anyone left holding the stock days later would feel as if a grenade had gone off in their hands.

For the hapless company, based in a New York office buzzing with professional traders, there was little to do afterwards except field hundreds of e-mails from distressed shareholders. But such spamming was not a one-off. A recent study by Rainer Böhme and Thorsten Holz*, two computer scientists from Germany's Technical University of Dresden and Mannheim University, respectively, shows the practice is widespread and does have an impact, at least in the short run, on share trading and prices.

The study tracks shares in America's S&P 500, the NASDAQ Composite, the Russell Microcap Index and Pink Sheets, particularly thinly traded ones that tend to be promoted by spammers. Between November 2004 and February 2006, the researchers found 391 different shares that were targeted. The 111 with sufficient historical data tended to fluctuate 13% more after the e-mails went out than other shares on the indices. In the short-term, they said prices tended to rise after a spamming campaign. They did not study long-term effects.

Others have, however, including Joshua Cyr, who runs the website spamstocktracker.com. He has performed an experiment by making "virtual" investments in 1,000 shares after he receives a spam tip. If his investment of more than $69,000 had been real, Mr Cyr would have lost more than $46,000 in the past 15 months. Mr Cyr says share prices spike and then drop, sometimes by more than 90%, before companies realise they have been spammed. Sometimes, they have responded by changing their ticker symbols. Penny stocks are considered ideal for spammers because they trade in low volumes, allowing a small amount of investment activity to generate wild swings in value. This gives tipsters the greatest opportunity to make a profit. Generally, they create excitement about a stock that they also invest in, only to sell it after they successfully push up the price. That can set off a wave of selling which eventually depresses the share price.

The Securities and Exchange Commission has issued warnings about the dangers of such fraud. In 2000 it settled a civil fraud suit against 15-year-old Jonathan Lebed, who used the internet to inflate share prices. He was forced to repay his $272,826 in profit. But the negligible cost of sending mass e-mails and the anonymity of spammers make it an easy business to start and a hard one to stop.

*"The Effect of Stock Spam on Financial Markets" by Rainer Böhme and Thorsten Holz. Workshop on the Economics of Information Security, University of Cambridge, working paper, April 2006.

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Economics focus

The mystery of capital deepens

Aug 24th 2006
From The Economist print edition

Giving land titles to the poor is no silver bullet

IN 1981 about 1,800 families occupied a stretch of wasteland in the municipality of Quilmes on the outskirts of Buenos Aires. The squatters lacked legal title to their new place in the sun, but they did not lack for tenacity. They outlasted Argentina's military junta, which tried several times to evict them, and in 1984, after the return of democracy, the provincial government passed a law expropriating the land from its rightful owners so that the squatters could enjoy formal ownership of it.

This is a tale that would warm the heart of Hernando de Soto, a Peruvian economist, celebrated by this newspaper and many others for his book “The Mystery of Capital” (2000), and for his vigorous efforts to extend secure property rights to the poor. In his book, Mr de Soto argues that the poor have more assets—shacks, stalls, plots—than you might think. But because they lack title to these assets, they cannot pass them on, divide them up, or offer them as collateral for a loan to expand their makeshift businesses and fully express their entrepreneurial energies. Their assets remain embalmed as “dead capital”.

But the victory of the Buenos Aires squatters was only partial. Eight of the former landowners accepted the government's compensation in 1986, one did not relent until 1998, and the remaining four are still contesting it in Argentina's Dickensian courts. As a result, several hundred families now own their land, but their neighbours still squat uneasily on theirs.

This is unfortunate for the squatters, but a rare opportunity for economists to test the power of property rights. Sebastian Galiani of San Andrés University and Ernesto Schargrodsky of Torcuato di Tella University believe the case provides a natural experiment*. The families lucky enough to win title can be compared with a ready-made control group: the otherwise identical families that did not. This makes it possible for the study to distinguish cause and effect; to isolate the impact of title from all the other confounding factors.

The results of the experiment are mixed. Secure land rights do encourage the poor to build their nests. But even in a relatively advanced country such as Argentina, title is not enough in itself to animate the dead capital interred in land and property.

The landowning families invested more in their homes, which had noticeably better walls and roofs. They were also more likely to lay concrete pavements. But the titled households enjoyed no better access to bank loans, credit cards or bank accounts, and only 4% of them managed to acquire a mortgage.

Disappointing, but not surprising, Messrs Galiani and Schargrodsky argue. Argentine banks tend to lend only to workers with high wages and a stable job. Titled or not, the former squatters still fell well below the official poverty line. The cost of making and enforcing a loan contract might exceed the modest sums they were able to borrow. Others say the experiment might be too recent to deliver a conclusive verdict. The government did not allow the newly entitled families to transfer their land for a decade, thus by the time they answered the economists' survey in 2003, they had enjoyed full rights to their property for seven years, not 17.

The credit market has also been slow to respond to a much bigger urban-titling movement in Peru, carried out by the government with the help of Mr de Soto's think-tank, the Institute for Liberty and Democracy (ILD). The campaign had awarded over 1.5m titles by July 2006. But it did not do them all at once. Erica Field of Harvard University and Maximo Torero, of the International Food Policy Research Institute, have compared 536 households served before March 2000 with another 1,180 households that

had yet to be reached by that date, on the assumption that little else distinguished the two groups†.

The authors show that households with title were more likely to secure a loan from the government-backed Materials Bank, which buys bricks, mortar and other materials for building and improving homes. They also paid lower interest rates on loans from private sources, including commercial banks and microlenders like Mibanco. But their odds of getting a private loan in the first place did not improve. More than a third could not get a loan or would not take one, for fear of losing their property.

Paradoxically, this fear may not be sharp enough, the authors argue. There are, they point out, two sides to collateral: enforcing the bank's right to repossess an asset is as important as recognising the owner's right to possess it. But titling programmes, they write, “unavoidably signal to lenders that a government prioritises housing for the poor, and hence is more likely to side with borrowers in enforcing credit contracts.”

Clinical depression

The ILD has always pushed for broader changes in the legal system so that it can handle the kind of collateral the poor provide, at a cost that makes it worthwhile to do so. Credit also appears to have grown quite quickly in Peru after 2000, the year of the survey used by Ms Field and Mr Torero. The World Bank's own studies show that mortgages worth $136m were approved in 2003, compared with $66m three years earlier. Likewise, formal credit increased from $249m to $367m in the same period, although the bank notes the difficulty in showing why this happened.

Two cases, however neat, cannot settle the big questions Mr de Soto raises. Nonetheless, experiments of this kind, which aspire to the rigour of a clinical trial, are the height of fashion in scholarly circles. These papers subject one of the most appealing ideas in development to one of the most eye-catching investigative techniques in the field. It is only a shame that the second may dampen enthusiasm for the first.

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*“Property Rights for the Poor”. Available at tinyurl.com/ndw69

†“Do Property Titles Increase Credit Access Among the Urban Poor?”Available at tinyurl.com/mp3yx

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About sponsorship

Corrections: China's central bank and Allianz Capital Partners

Aug 24th 2006

In "Ups and downs" (August 19th) our second reference to Wu Xiaoling, vice-governor of China's central bank, should be Ms Wu. In "Unnatural alliance" (August 19th), Allianz's private-equity business is called Allianz Capital Partners, not Alliance Capital Partners. We apologise. These errors have been corrected online.

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Stem-cell technology

A circle squared?

Aug 24th 2006 | WORCESTER, MASSACHUSETTS
From The Economist print edition

An American biotechnology firm may have found a way to make embryonic stem cells without upsetting anybody

IT IS hard for some people to see the small cluster of cells known as a blastocyst as a human being. Yet, all being well, it will become one—for a blastocyst is an early stage in embryonic development. For that reason, other people regard the deliberate destruction of human blastocysts as wrong.

Those who cleave to the latter view include many conservative American politicians. That has caused problems for American scientists who would like to study human embryonic stem cells. These have the potential to generate any of the 220 or so sorts of specialised cell that make up the human body. That pluripotency, as it is called, makes them of great scientific interest. It holds the promise of important medical breakthroughs, such as the ability to grow from scratch bodily organs destined for transplant.

But obtaining embryonic stem cells means destroying blastocysts, and an American law passed in 1996 forbids the use of federal-government money for research that requires such destruction. On August 9th 2001 George Bush decreed that no federal money could be spent on research on embryonic stem-cell cultures (known as “lines”) created after that date. Last month, he vetoed a congressional bill to allow the financing of such research.

It is all very messy. But researchers at the laboratories of Advanced Cell Technology in Worcester, Massachusetts, think they have discovered a way out of this problem. A paper just published in the online edition of *Nature* by five of the firm's scientists describes a technique that might allow the creation of new embryonic stem-cell lines without destroying the embryo they are derived from.

Worcester source

The technique is derived from a procedure already used during *in vitro* fertilisation (IVF). One reason a couple might choose a Petri dish to unite their eggs and sperm rather than the traditional method, is if one of them carries the gene for a disease. Once a fertilised egg has divided into eight cells, one of those cells can be removed in a biopsy without reducing the chance of a successful pregnancy. The removed cell can be examined and, if the gene in question is present, the embryo it came from will not be implanted into the mother.

ACT's researchers were not the first to think that such biopsied cells might, instead, be encouraged to reproduce—thus generating a line of stem cells. But they are the first to have succeeded. The trick was to culture the individual cells separately while allowing them to share the same liquid medium. Previous attempts had isolated the cells. Culturing them together in this way allowed them to encourage each other's growth by chemical signals through the medium.

The firm's success is not, however, quite as clear-cut as it seems. The researchers had only 16 embryos (which had originally been created for IVF but were deemed surplus to requirements), so to maximise the number of cells they had to play with, they used most of the cells in each. That, of course, destroyed the embryos, so their technique is only a stepping stone to the desired outcome of working with a single cell from each embryo. Even then, they were able to establish only two stable cell lines from some 91 initial cells.

Nor was it clear whether the cells cultured together in this series of experiments came from the same or different embryos. That matters because single-cell biopsies would only work with this method if cells from unrelated embryos can nurture each other (although Robert Lanza, ACT's vice-president for research and scientific development, says that some of the firm's unpublished work suggests a biopsied cell might be nurtured by keeping it near the embryo it came from).

The lines generated, though, do appear to be pluripotent. They show gene activity characteristic of such cells—and, with appropriate prodding, will differentiate into all of the basic cell types found in embryos, which themselves lead to the specialised cells of a complete human body.

Crucially, according to Dr Lanza, they are not “totipotent”. This is a fine, technical distinction—but an important one. Pluripotent cells can generate any cell type, but not an entire organism. Totipotent cells can generate an entire organism. According to Dr Lanza, the evidence from other mammals is that the individual cells of a developing embryo have lost totipotency by the eight-cell stage. In other words, getting an individual cell to reproduce could not create a potential organism.

Alta Charo, a legal expert at the University of Wisconsin, believes that ACT's new technique might get round the original congressional law but still fall foul of Mr Bush's decree. Bill Caldwell, chief executive of ACT, disagrees. He is confident that no change in either the law or presidential policy is required.

The field of stem-cell biology is clearly one where caution is advisable and ACT knows this better than most. Five years ago it announced with a fanfare that it had grown cloned human embryos. No authentic replication of that work has yet been published, although a South Korean laboratory led by Hwang Woo-suk did report some fraudulent ones. This time, the firm had better be right.

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Mathematics

Making apples from oranges

Aug 24th 2006
From The Economist print edition

Proof of the truth of the Poincaré conjecture

FOR the past century mathematicians have struggled to prove the conjecture of a late-19th-century French polymath, Henri Poincaré. Three years ago a possible proof was posted on the internet by Grigori Perelman, a Russian who lives with his mother in a Saint Petersburg flat and is as reclusive as Poincaré was fêted. On August 22nd the International Congress of Mathematicians awarded Dr Perelman its highest honour, the Fields medal, for his solution which, having stood for three years, is now taken as correct.

Poincaré's conjecture is important not for its practical applications, but because a vast quantity of mathematical work assumes that it is true. Proving the conjecture false would have cast doubt on much of modern mathematics—and everything that depends on it. Dr Perelman's work, therefore, is reason to sigh with relief.

To understand the Poincaré conjecture, start by thinking of any object existing in a three-dimensional world. Although it is usual to think of the object as three-dimensional, mathematicians consider only the surface of these objects—which are two-dimensional. All objects in a three-dimensional world can be simplified by smoothing out their shape to look like either a two-dimensional sphere (otherwise known as a circle) or a two-dimensional torus with however many holes necessary. To mathematicians, a chair is equivalent to an apple; a mug—at least, one with a handle—is like a doughnut.

Whether the simplified shape is a sphere or a torus is determined by the behaviour of one-dimensional curves on its surface. Imagine an elastic band stretched over the surface of an apple. The band can slowly shrink, moving as though it is slipping from the surface, until it becomes just a dot on the apple's skin. It can do this without tearing itself and without ever leaving the surface. In this example, mathematicians would say that the surface of the apple is “simply connected”. Any object with a simply connected surface can be smoothed out to look like a sphere.

Imagine, by contrast, an elastic band that passes through the hole in a doughnut. If this band is slowly shrunk, it becomes necessary to cut the doughnut or break the band. In this example, the surface is not simply connected and any smoothed-out object looks like a torus with at least one hole.

On the next rung up the ladder of difficult mathematics comes doing the same thing in four-dimensional space. The surface of an object in four-dimensional space would look like a three-dimensional “surface” that curves in on itself. More than a century ago, Poincaré wanted to calculate a way of classifying such three-dimensional surfaces that live in four-dimensional spaces. His conjecture, made in 1904, was that in this four-dimensional world, all closed three-dimensional surfaces that are simply connected could be transformed to look like a three-dimensional sphere. As mathematicians say, “Every simply connected closed 3-manifold is homeomorphic to a 3-sphere.”

Dr Perelman proved Poincaré's conjecture by taking an equation normally used to model heat dissipation in three-dimensional objects, known as Ricci flow. The equation smoothes out the irregularities of an object, transforming it mathematically into something that looks like a uniform three-dimensional sphere. This does not change the object's essential properties: the transformed shape is equivalent to the starting shape.

Richard Hamilton of Columbia University had previously realised the usefulness of this heat-flow model but became unstuck when he found that, under this transformation, the object may stretch out to form singularities—spikes that could not be easily manipulated into a sphere. Dr Perelman overcame this difficulty by cutting off the singularities, continuing with the Ricci-flow application and then rejoining the

transformed objects later. He then applied the Ricci flow to the rejoined piece and this smoothed the complete object into a sphere—a piece of lateral thinking that would surely have delighted Poincaré himself.

Fields medals are only awarded once every four years but the organisers give four medals at each ceremony. This year, the other medals went to Andrei Okhounkov of Princeton University, Terence Tao of the University of California, Los Angeles, and Wendelin Werner of the University of Paris. These winners accepted their medals but Dr Perelman stayed at home, reportedly because he has no desire to be a figurehead of the mathematics community. He also appears to have turned down the $1m prize money offered by the Clay Mathematics Institute for solving the problem. For Dr Perelman, transforming a conjecture into a theorem appears to have been prize enough.

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Neuroscience

Changing connections

Aug 24th 2006
From The Economist print edition

Fatherhood alters the structure of your brain—if you are a marmoset

PARENTING has obvious effects on mothers, but fathers appear to be affected, too. A study published this week shows that fatherhood increases the nerve connections in the region of the brain that controls goal-driven behaviour—at least, it does in marmosets.

Pregnancy and motherhood have long been known to bring about changes—many of them positive—to the female brain. Pregnant and nursing rats have a greater number of neural connections, particularly in the region of the brain that controls hormones and maternal behaviour. The brain changes coincide with improvements in spatial memory and speedier foraging skills, which might help a mother rat protect and feed her young.

Just what effect parenting might have on the brains of fathers has remained an open question, however. Male rats sometimes eat their young rather than nurture them, which makes them a poor model for studying how fatherhood affects the brains of species that frown on infanticide. Marmoset fathers on the other hand are a model of paternal devotion. They carry their babies for more than half the time during the offspring's first three months, passing them to the mother only when the babies need to be fed.

Elizabeth Gould of Princeton University and her colleagues compared the brains of marmoset fathers with those of males that lived in mated pairs, but lacked offspring. They found substantial differences. The nerve cells in the prefrontal cortex of fathers had more tiny projections, known as dendritic spines, than those of non-fathers. Because dendritic spines are the sites of connection between neighbouring nerve cells, the increased number may mean more activity in the fathers' brains than in those of the non-fathers. The nerve cells in the prefrontal cortex of the fathers also contained more receptors for vasopressin, a small peptide that influences social behaviour and pair-bonding.

The researchers also showed that, as the offspring aged and fathers became detached from them, the abundance of vasopressin receptors fell. This suggests that the parental behaviour is associated with the changes in the brain. The work is published this week in *Nature Neuroscience*.

What does this mean for human fathers? It is hard to tell. The attention of marmoset fathers makes them an extreme example of fatherhood. Human fathers do not usually get involved to anything like the same extent. That said, the scientists looked at the marmoset's prefrontal cortex because earlier studies had shown that activity in the prefrontal cortex of human parents—male and female alike—increases when they see their own offspring. Thus the same brain region is active in parenting in both species.

Craig Kinsley of the University of Richmond, Virginia, who did the work with rat mothers, speculates that Dr Gould's new findings may reflect human behaviour quite closely. “There is a lot of interest in the idea that having children forces responsibility on males in many respects. If you consider that the prefrontal cortex plays a major role in planning, judgment and the anticipation of the consequences of behaviour, you could make a clear argument that the changes in that part of the brain would be involved with judicious attention toward offspring.”

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Cosmology

Through a glass, darkly

Aug 24th 2006
From The Economist print edition

The first proof that dark matter really does exist

THAT the universe is filled with matter people cannot see—matter that simply passes through pretty much everything undetected—is hard to accept. But it would appear to be true. The alternative—that somehow gravity works differently at extremely large distances—has just been ruled out by astronomers who are watching one of the most violent collisions in the history of creation.

Most galaxies are found in gravitationally bound groups, called clusters. Sometimes these clusters collide and merge with one another. The bullet cluster—otherwise known as 1E0657-556—is one such example. Some 100m years ago, it was created when a smaller cluster smashed into a larger one at about 5,000 kilometres per second. The crash was the highest-energy cosmic event known to have occurred since the Big Bang. The winds generated by the collision created a bullet-shaped cloud of hot gas that gives the cluster its name.

In clusters, most of the "normal" matter—the atoms that make up the stars, the planets and any being living on them—is in the form of hot gas and stars. The mass of the gas between the galaxies is far greater than the mass of the stars within them. Scientists have known since the 1930s that there was a problem: that the mass of the observed matter was far too small for gravity to keep the stars within the galaxies and the galaxies within clusters. Either there was some huge but unseen mass that was doing the job, or gravitational theory was wrong and gravity worked differently on cosmic scales.

To test which was correct, astronomers led by Douglas Clowe of the University of Arizona turned their telescopes on the cloud in the bullet cluster. In the collision that formed it, the stars mostly missed each other and went speeding ahead, relatively unimpeded. The clouds of gas, however, were held back because they presented a much broader face to each other. The gas was slowed by a drag force similar to air resistance.

If dark matter exists, it should have travelled with the stars, because the particles that constitute dark matter—whatever they may be—do not interact with each other or anything else, except through gravity. If, however, dark matter does not exist and it is gravitational theory that needs modifying, then the mass of the bullet cluster should be distributed as it is in the rest of the universe—that is, the mass should be mostly in the gas clouds rather than in the stars.

Dr Clowe and his colleagues used a technique called gravitational lensing to detect the mass distribution of the bullet cluster. Gravitational lensing occurs because gravity, as Einstein showed, bends light. That means a massive object such as a galaxy can act like a lens, bending light from things behind it to a focal point in front of it, and forming a natural telescope.

The images they obtained, which will be published in a forthcoming issue of *Astrophysical Journal Letters*, showed that the mass of the bullet cluster was mostly with and ahead of the stars, whereas the gas accounted for little of it. Merely changing the way in which gravity acts on normal matter cannot explain this distribution. Thus, dark matter must exist, and it was wrenched apart from normal matter by the force of the collision of the clusters. The task for the next 70 years is for physicists, astronomers and cosmologists to discover exactly what it is.

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About sponsorship

India

Through piety to greatness

Aug 24th 2006 | NEW DELHI
From The Economist print edition

Eyevine

In its unstoppable rise to a great future, India has to negotiate its way through religiosity and over-enthusiastic democracy

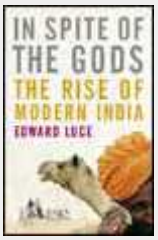
SWAMI VIVEKANANDA, a 19th-century Hindu holy man, once said that every nation has a “special genius”, and that India's is religion. Hinduism, Buddhism, Jainism and Sikhism were born there, and migrant religions have flourished—India has more Muslims than any country other than Indonesia. It is a fast-emerging power with nuclear weapons, a world-renowned information-technology industry and a booming economy. Yet many Indians cling to the idea that religiosity is an essential part of the nation's character.

This makes a natural start for two books about India. The title of Edward Luce's “In Spite of the Gods” was partly inspired by Jawaharlal Nehru, independent India's first prime minister, who wrote that religion “has not only broken our backs but stifled and almost killed all originality of thought or mind”. Although this is errant nonsense, Indian spirituality has been accompanied by a suspicion and even disdain of modernity—and is one reason why India's rise comes “in spite of the gods”.

Mr Luce presents a compelling case, however, that the rise is almost unstoppable. A former correspondent in India for the *Financial Times*, he has written a perceptive, witty and readable book that will for some time be the definitive generalist's account of the country's recent political, economic and social development, and of its future prospects. Mr Luce argues that India's strengths lie not in its religious traditions, but in its history of pluralism and the vibrancy of its democracy.

That strength may be mistaken for a weakness. Indian decision-making can be agonisingly slow, because, in the words of a former government minister, “everyone has a veto”. For the foreseeable future governments are likely to be unwieldy coalitions. Democracy has adapted itself well to the ineffable complexities of the caste system. Indeed, it has in some ways further entrenched

In Spite of the Gods: The Rise of Modern India
By Edward Luce



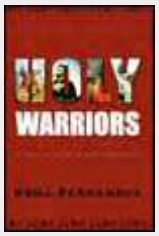
Doubleday; 352 pages; $26.
Little, Brown; £20

Buy it at
Amazon.com
Amazon.co.uk

Holy Warriors: A Journey into the Heart of Indian Fundamentalism
By Edna Fernandes

it: caste-based political parties supposedly formed to fight against the injustice of a hierarchy based on birth, end up strengthening caste identities.

Mr Luce skilfully explores this and many of the other seeming contradictions of Indian politics—where “modern” forms, such as a Westminster-style parliamentary system, fuse with atavistic attitudes. Congress, the ruling party for most of India's independent life, is a hereditary dynasty, whose current chief is the Italian-born Sonia Gandhi, Nehru's granddaughter-in-law. Its main rival for power, the Bharatiya Janata Party, has its roots in a mass organisation founded on fascist lines to pursue a vision of India, alarming to many minorities, as a “Hindu nation”.



Penguin Viking India; 332 pages; 450 rupees

Buy it at
Amazon.com
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“Holy Warriors”, by Edna Fernandes, another former Delhi-based foreign correspondent, reports on Hindu nationalism and other forms of Indian fundamentalism. It tackles another great Indian paradox: that, despite its spirituality and tolerance, the country has witnessed terrible atrocities committed in the name of religion. But this is not really a paradox at all: “Home to all the major religions, India is also, inevitably, host to virtually every type of religious fanatic.”

Ms Fernandes has written an entertaining and insightful thematic travelogue, a tour of Indian religious flashpoints. She takes us from Gujarat, scene of a terrible pogrom of Muslims in 2002, to Amritsar, where the storming of the Sikhs' holiest shrine, the Golden Temple, by government forces in 1984 was followed by the assassination of a prime minister, to Nagaland, where Baptist Christians have been waging one of the world's longest-running secessionist struggles.

Democracy is often portrayed as a handicap in India's drive for economic success and global stature. But besides offering a basic human right and dignity, it provides a stability and resilience that help India withstand these internal strains. Diversity, as Mr Luce notes, is India's greatest strength. He lists four “Herculean” challenges facing the country. Three are daunting enough: the urgency of lifting nearly 300m Indians out of absolute poverty; stemming the spread of HIV and AIDS; and preventing the wrecking of the environment. The fourth is protecting India's liberal democratic system, which provides the best hope of dealing with the first three, and is the fundamental reason for optimism. As Mr Luce puts it: “India is not on autopilot to greatness. But it would take an incompetent pilot to crash the plane.”

In Spite of the Gods: The Rise of Modern India.
By Edward Luce.
Doubleday; 352 pages; $26. Little, Brown; £20

Holy Warriors: A Journey into the Heart of Indian Fundamentalism.
By Edna Fernandes.
Penguin Viking India; 332 pages; 450 rupees

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About sponsorship

Post-war American history

Order by coercion

Aug 24th 2006
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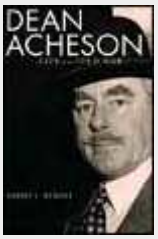
THERE has been no shortage of books on Dean Acheson, including his own famous self-assessment, “Present at the Creation”, which won the Pulitzer prize for history in 1970. Yet Acheson, who died the following year, remains a riveting figure because of what took place on his watch, first at the Treasury and then at the State Department where he rose to become secretary of state. While he was in office, the second world war ground to its bloody conclusion, global atomic stand-off with the Soviet Union began and the West responded with the International Monetary Fund, the World Bank, the Marshall Plan, the Berlin airlift, the creation of NATO and the hydrogen bomb.

Dean Acheson: A Life in the Cold War
By Robert L. Beisner



Oxford University Press; 950 pages; $35 and £19.99

Buy it at
Amazon.com
Amazon.co.uk

The fascination with Acheson is, at its heart, a fascination with both the extent and the limits of American ability to impose order after upheaval. Whenever the world finds itself experiencing painful reordering in international affairs, two crucial questions emerge for those in charge in Washington, DC: how should America attempt to shape international order, and what price should it be willing to pay? In his encyclopedic biography, Robert Beisner, a retired historian formerly at American University in Washington, DC, shows in minute detail how Acheson came to answer those questions when history made it incumbent upon him to do so.

Obviously, the secretary of state had to report to the president, Harry Truman, but Mr Beisner argues convincingly that their relationship was far closer: Acheson spoke and acted with Truman's support virtually all the time. Acheson, whom Mr Beisner greatly admires, felt that America should negotiate a new order with the Soviet block, but only from a position of overwhelming power. Ideally, America would accumulate so much strength, it could simply compel Soviet acceptance of its wishes, “negotiations or not”. Mr Beisner summarises Acheson's thinking thus: “To the end of his days, he was writing ‘build strength' on his prescription pad.”

To Acheson, this meant all kinds of strength—economic, conventional military and thermonuclear—combined with the willingness to use it. The Marshall Plan represented both a peaceful reconstruction programme “and a money gun aimed at Soviet domination of Europe”. NATO meant that America “would fight in the first day” of the third world war as opposed to showing up later; the American army “would *defend* rather than *liberate* Western Europe”. The Korean war showed American willingness to sustain combat; American defence spending more than tripled between 1950 and 1953.

In one of the book's most gripping passages, Mr Beisner describes the seven-minute Oval Office debate in which Acheson and his allies convinced Truman to approve work on the most destructive weapon ever, the hydrogen bomb. Truman, interrupting an opponent of the bomb, asked curtly, “Can the Russians do it?” The response was yes. “In that case,” Truman said, in a buck-stops-here moment, “we have no choice. We'll go ahead.”

Sadly, this fascinating description is not characteristic of Mr Beisner's writing as a whole. Although solidly researched, the book is written to a level of detail that will prove daunting for most readers. This is a shame, because, buried in the over-abundant pages, there are insights into a number of crucial issues: the difficulty of establishing productive economies in occupied regions; the global impact that leaders of small countries (such as North Korea) can have when they threaten their neighbours; and the consequences of prioritising military over social spending. An abridged version of “Dean Acheson: A Life in the Cold War” would be welcome.

Yet on the big questions the book is clear. In a description of Acheson's youth, Mr Beisner describes how the privileged young student spent an unusual summer working on the railways in northern Canada. The experience was meant to expose him to the common man and prevent “snootiness”. Acheson found that he loved the sense of freedom and “uncoerced order” that he found there. But as a mature man and political leader, Acheson's argument boiled down to the opposite: establish order through coercion, which surely must be the most costly way to do so.

In one of his few criticisms of Acheson, Mr Beisner agrees that this may have been necessary at the start, but he faults the diplomat for having no vision beyond that. “He was not a dealer in hope, or able to see to the far shore.” He could tell neither Americans nor the rest of the world when the world war and its sacrifices would come to an end, and he “did not seem to care how long it lasted” in the meantime. What communist leaders did to the people and economies they ruled was not of primary concern to him.

Mr Beisner is right to call him to task for this. Acheson provided remarkable leadership during an era of great uncertainty. But the fact that an international order based on co-operation rather than coercion was, then as now, an elusive dream, does not obviate the merits of working towards it. Failing to pursue it at all only makes casualties of coercion inevitable.

Dean Acheson: A Life in the Cold War.
By Robert L. Beisner.
Oxford University Press; 950 pages; $35 and £19.99

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About sponsorship

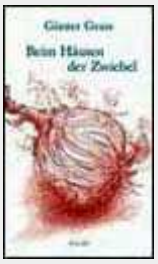
20th-century Germany

Grassroots

Aug 24th 2006
From The Economist print edition

IN HIS teens, Günter Grass suffered three great hungers: first a hunger for food in an American prison camp in 1945 where near-starvation was part of the punishment. He took imaginary cooking lessons from a Bohemian chef, who described in great detail how to slaughter a pig and use every part, from its trotters to the deboned hog's head. The obsession with cooking and eating fatty food stayed with him.

Beim Häuten der Zwiebel
By Günter Grass



Steidl; 480 pages; €24

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Amazon.de

On his release Mr Grass spent months as a labourer in a Düsseldorf potash works trying to satisfy his second hunger, for sex. Often the nearest he got was in the tram on the way to work, pressing himself against strap-hanging secretaries. However, thanks to earlier dancing lessons in Danzig, the Baltic town where he grew up, he was able to pull a few girls.

Mr Grass's third great hunger, to be an artist, had only partly been satisfied by wartime sketches and poems. In January 1947, he left his refugee parents, now living near Cologne, and tried for a place at sculpture school in Düsseldorf. His professor advised him to learn stonemasonry first; there was plenty of work making headstones. Later at art school in Berlin, Mr Grass progressed from carving conventional figures to out-sized statues of animals. After marriage, the birth of twin sons and a move to Paris, Mr Grass began working on “The Tin Drum”, which, after publication in 1959, made him famous.

This is the essence of “Beim Häuten der Zwiebel” (“Peeling the Onion”), an autobiography which explains the post-war Grass. But the first 150 pages are completely different—an apologia by an old man for not previously linking himself to the 17-year-old youth who in November 1944 joined the Waffen-SS, the combat divisions of Heinrich Himmler's Schutzstaffel. The youth was a typical Nazi sheep, a willing subject for propaganda films, with typical schoolboy fantasies of winning laurels as a submariner. When the Stauffenberg plot to kill Hitler failed in July 1944, Mr Grass joined his neighbours in decrying the conspirators as “that brood of treacherous aristocrats”. He volunteered for U-boat service, but was drafted willy-nilly into the SS, an accident of history which thereafter was so shameful to Mr Grass that, despite his impeccable Social-Democrat credentials, he never found the right time to come clean.

Does this mean that much of his previous work, which focuses on *Vergangenheitsbewältigung* (“coming to terms with the past”), has forfeited some of its artistic truth, as some critics and politicians have argued? No, it does not degrade Mr Grass as a fabulist of burlesque events, a veritable bestiary of characters: “Cat and Mouse”, “The Flounder”, “From the Diary of a Snail”, “Dog Years”. What is interesting, however, is the unconvincing nature of his wartime recollections. That section of the book is colourless and stereotyped. Many of the scenes could have been lifted—and the suspicion remains that they were—from Mr Grass's frequent visits to the cinema. The author himself makes many references to films and often throws doubts on his own memory and his ability to convince. There is no description of wartime friends, for example. Only one character stands out: the Aryan youth who at training camp refused to bear arms and one day disappeared. There is an episode in which Mr Grass's platoon tries to escape from the enemy by bicycle and is cut down. He, a non-cyclist, is the sole survivor. Even if this were true, he fails to suspend disbelief.

Contrast that with Mr Grass's mastery of character once the “dubious” few months in the SS are over. He meets a salt-of-the-earth corporal who helps him back to the German lines. Both are hit by shrapnel. Many later encounters with the Bohemian chef, with art professors and stonemasons, are the stuff of his later novels. A boy with a tin drum, who bursts in to a room in Switzerland in about 1952, becomes Oskar in his most successful work. Mr Grass may have satisfied his three hungers, but he has left a

corner of doubt: why should his recollection of those few combatant months appear so weak?

Beim Häuten der Zwiebel.
By Günter Grass.
Steidl; 480 pages; €24

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Travel writing

Farsighted

Aug 24th 2006
From The Economist print edition

LIEUTENANT James Holman was already a remarkably good naval officer when he went blind in 1811, at the age of 25. What he did after that was extraordinary. In an age when blindness usually meant a life of passive gratitude at best, and beggary at worst, Holman became an international traveller. He journeyed alone, with very little money, trusting to his natural gift for friendship.

Holman observed acutely what he found, by ear, touch and smell. Using a clever device, a noctograph (carbon paper on a rigid wooden frame), he wrote it down. His descriptive powers were so good that, at the height of his fame, he was Britain's best-known travel writer. Holman journeyed across Russia to Siberia and back, visiting Africa, India, China, Australia and Latin America and a lot of Europe too. Locomotion was by sailing ship, horse and foot—and by those means he covered 250,000 miles (400,000km), according to Jason Roberts, who has unearthed his story.

The author paints a convincing and well-researched picture of Holman's early life as an apothecary's son in Exeter, his stellar naval career, his growing ill-health, and the bleak prospects that awaited him as his vision dimmed. The descriptions of the gruesome medical treatments then available for disorders of the eye are stomach-turning.

A Sense of the World: How a Blind Man Became History's Greatest Traveler
By Jason Roberts

HarperCollins; 400 pages; $26.95.
Simon & Schuster; £12.99

Buy it at
Amazon.com
Amazon.co.uk

He also pieces together the details of Holman's travels, using his published works and the observations of others. Holman's first long trip, to Russia, is particularly well drawn: disgusting meals, bureaucratic barriers and a charming English widow in Irkutsk, a town boiling with money in a way that is reminiscent of Russia today. He makes an interesting link between Holman's trick of banging a stick to gain an aural picture of his location and other similar techniques being developed to help people use their ears as their eyes.

What Mr Roberts does not manage to do is portray his subject completely convincingly. He says, frequently, that Holman was a charming conversationalist, an able linguist, a great ladies' man, resourceful and uncomplaining. But what of the vices? Was Holman, perhaps, a bit garrulous? Or self-important? That would certainly help explain the remarkable eclipse of his career in later life.

Some of this, no doubt, can be ascribed to prejudice, and to jealousy. Mr Roberts makes a lot of that, perhaps too much. What seems atrocious now, of course, was the way of the world then. But the end result, for all the excellent detective work and atmospherics, is a touch unsatisfying. Disabled people may be heroes, but they are not necessarily saints.

A Sense of the World: How a Blind Man Became History's Greatest Traveler.
By Jason Roberts.
HarperCollins; 400 pages; $26.95. Simon & Schuster; £12.99

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New fiction

Open city

Aug 24th 2006
From The Economist print edition

ROBERT HARRIS'S latest is an effortlessly slick and enjoyable book, part historical drama, part political thriller and part blueprint for a buddy movie. It tells the story of republican Rome's cleverest statesman, Cicero, as remembered by his secretary of 36 years, Tiro.

Tiro has a nifty claim to fame: he invented the ampersand. He needed a whole system of shorthand to cope with Cicero's round-the-clock eloquence: “He never ran short of words and I never ran short of symbols to catch and hold them for ever as they flew through the air. We were made for one another.”

Therein lies much of the book's charm. Mr Harris dramatises seemingly mundane events: taking dictation, transcribing speeches, swotting up on the law. But in his hands these chores are as tense as a Hollywood shoot-out.

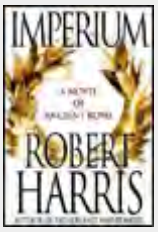
Tiro's account begins when he and Cicero are still in their 20s. The two men travel to Rhodes so that Cicero, then a struggling lawyer, can improve his public-speaking skills. They visit a boot camp for would-be orators run by an old Greek called Molon. First Molon bulks up Cicero's scrawny body with eggs, anchovies and exercise. Then he puts muscles on his vocal cords by forcing him to declaim speeches over the roar of the ocean.

Cicero returns to Rome a lean, mean speechifying machine. The rest of the book charts his progress from senator to consul. Mr Harris handles the big set pieces superbly, especially a knock-down, drag-out fight for the consulship. Cicero uses rhetoric like a rocket launcher. Chunks of his famous *In toga candida* speech are repeated more or less verbatim. It is exciting enough to send readers, even those scarred by childhood brushes with Cicero's notoriously tricky texts, back to their Kennedy's Latin Primer.

“Imperium” ends on a high note, with Cicero's triumph over his aristocratic enemies. But Mr Harris hints at chaos to come, both for Cicero and for Rome. Bring on the next instalment.

Imperium: A Novel of Ancient Rome.
By Robert Harris.
Simon & Schuster; 320 pages; $26. Hutchinson; £17.99

Imperium: A Novel of Ancient Rome
By Robert Harris



Simon & Schuster; 320 pages; $26. Hutchinson; £17.99

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William Shakespeare

Wilful thinking

Aug 24th 2006
From The Economist print edition

The mystery of Shakespeare still exerts its inexorable pull

HERE are two books with “Shakespeare” in the title that could not be more different in tone: Stanley Wells, cool, orderly and gently amused; and Ron Rosenbaum, all personal and upfront, ecstatic, pugnacious, complex—a streetwise Ancient Mariner.

They are different in approach too. Mr Wells sees Shakespeare as a member of a community of writers and actors, sparking off and learning from each other; the bard collaborated actively with at least one of those, Thomas Middleton. Mr Rosenbaum, on the other hand, is in quest of the quality we call “Shakespearean”, the thing that makes Shakespeare unique (so he believes), off the continuum of other writers.

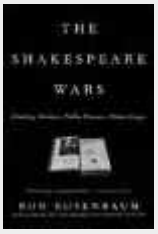
He readily admits that this is a slippery concept, remade in the image of each age, critic and reader. But he believes there is an irreducible something—for which he uses the word “bottomlessness”—a sense of endless resonance inherent in the words themselves. And in support of this he quotes Peter Brook, a British theatre director: “Each line in Shakespeare is an atom. The energy that can be released is infinite—if we can split it open.”

Mr Brook's production of “A Midsummer Night's Dream” changed Mr Rosenbaum's life and sent him on a double journey: not just through the works themselves, but through the maze of editorial and interpretative exegesis that surrounds them. There is a logic to this. If the words are key, it should be possible to know exactly what they are. But look closely, and they slide around. Shakespeare's plays exist in multiple versions. Hence the editors. There are thousands of variants, big and small—a whole scene here, an adjective there. One version of “Hamlet” includes a soliloquy in which Hamlet nails the very essence of his own character—his habit of “thinking too precisely on the event”. The other version omits it. One Lear dies believing that dead Cordelia's lips are moving. The other Lear dies unconsoled.

Mr Rosenbaum is astounded that most non-specialists do not know this; that they blindly accept conflations made according to editorial notions of what is “Shakespearean”. Academic debate rages on just this question and Mr Rosenbaum wants his readers to be in on it—even to the point of following the drama of personal alliances and battles among the scholars themselves. His news from the front is that victory belongs to the editors who print the different texts separately (for “King Lear” and “Hamlet” at least).

Yet the question remains: how does this bring Shakespeare closer? It is fiendishly problematic. Who made the alterations: Shakespeare, or a print compositor or a theatre manager? Which version is earlier or later? Is later better? The very uncertainty delights Mr Rosenbaum. Juggling the variants in his mind conjures the essence of Shakespeare for him—this, together with the “flickering”, “vacillating” (key words), half-hidden meanings and ambiguities that critics, actors and directors can disclose. Almost for the fun of it, Mr Rosenbaum overflows into a chapter on Shakespeare in the original spelling, where peculiar forms (“shroudly” for “shrewdly”, for example, in the opening scene of “Hamlet”) can strike strange resonances.

The Shakespeare Wars: Clashing Scholars, Public Fiascoes, Palace Coups
By Ron Rosenbaum



Random House; 624 pages; $35

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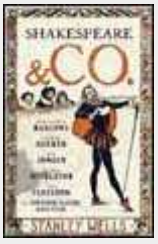
Shakespeare & Co: Christopher Marlowe, Thomas Dekker, Ben Jonson, Thomas Middleton, John Fletcher and the Other Players in His Story
By Stanley Wells



Penguin/Allen Lane; 304 pages; £25

Buy it at
Amazon.com
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Mr Rosenbaum is always alive and engaging. He has written excellent chapters on filmed Shakespeare, for example, and on Shylock. But his textual riddling can sometimes seem contrived. Theseus in “A Midsummer Night's Dream” cannot talk about hunting without being thought to be talking about his author's hunt for language. The plays become texts about texts. For all his reader-friendly vernacular, Mr Rosenbaum's Shakespeare can sometimes come out smelling of academic conferences.

Presented with less colloquial sweat, Mr Wells's Shakespeare is paradoxically less rarefied. “Shakespeare & Co” is about his fellows, their lives and plays, poems, pamphlets and translations. It is a salutary reminder of the sheer energy and inventiveness of other writers apart from Shakespeare, and of how much they and he read and referred to each other. It also highlights the things Shakespeare did not do: the contemporary metropolitan scene, for example, and direct political satire. Mr Wells's point is that, over time, our Shakespeare-skewed lenses have distorted the view in other directions. Christopher Marlowe, Ben Jonson and John Webster repay re-reading, even beside Shakespeare, while Thomas Dekker and Middleton emerge as real stars. None of this takes away from Shakespeare's eminence—it just gives it some soil and roots.

The Shakespeare Wars: Clashing Scholars, Public Fiascoes, Palace Coups.
By Ron Rosenbaum.
Random House; 624 pages; $35

Shakespeare & Co: Christopher Marlowe, Thomas Dekker, Ben Jonson, Thomas Middleton, John Fletcher and the Other Players in His Story.
By Stanley Wells.
Penguin/Allen Lane; 304 pages; £25

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About sponsorship

Alfredo Stroessner

Aug 24th 2006
From The Economist print edition

General Alfredo Stroessner Matiauda, dictator of Paraguay, died on August 16th, aged 93

AP

NOT only Africa has a heart of darkness. South America has one too, squeezed in the tight embrace of Argentina, Bolivia and Brazil. Two great rivers, the Paraguay and the Paraná, flow through Paraguay and past it, but travellers have little reason to come to this empty, landlocked place. The dry western *chaco* has no gold or oil, though wars were fought on the supposition it did; the east is more fertile, but still poor. The people are mostly Indian farmers, the army dangerously unpredictable. It is good ground for dictators.

For 35 years, from 1954 to 1989, Alfredo Stroessner ruled there. Under him, although he brought electrification, asphalt roads and friendship with America, the place became yet more isolated and benighted. The economy was based on contraband: whisky, cigarettes, passports, coffee, cocaine, luxury cars, rare bird skins, anything, until the unofficial value of Paraguay's exports was said to be three times the official figure. The style of government was a spoils system, underpinned by terror of a vicious network of spies and secret police. Foreign policy was a buddies' brigade with other dictators—Videla of Argentina, Pinochet of Chile—to co-ordinate counter-terrorism and assassinations. And the most famous tourist was Josef Mengele, the fugitive doctor of Auschwitz, riding into a village in the Paraguayan wilderness to be welcomed and protected.

General Stroessner himself was not seen much. His blue-eyed portrait, in white uniform with gold braid and multiple medals, stared down from walls in offices and private houses alike; but he was stocky and dull, the typical son of a German immigrant brewer, and preferred desk-duties to speeches and parades. He would work, breaking only for siesta, from six in the morning until nine at night. Much of his day was spent, like some Roman emperor, receiving the petitions of the long lines of ordinary citizens who filed towards his inner sanctum.

He did not give interviews to the press, having no wish to reveal himself. A single conversation, with Isabel Hilton of *Granta* when he had just begun his long exile in Brasilia in 1989, is almost all obituarists have to go on. In this he prided himself especially on bringing Paraguay peace. He had avoided “negative political movements”, imposing stability and order. As he said the word, *orden*, he rolled it sensuously round his mouth. But it had a different meaning for him: the political opponent “disappearing” in a bricked-up cell, the newspaper *ABC Color* closed down for five years, or the “communist” agitator (he saw such phantoms everywhere, they unloosed American aid) silenced by near-drowning in a bath of dirty water. He told Ms Hilton there had been no torture. But five tonnes of secret-police files turned up three years later, stacked from floor to ceiling of a police station in suburban Asunción, to give the lie to that.

A party of his own

His main machine of power was not the army. Although he was a distinguished soldier, rising to brigadier-general by the age of 36, and indeed had done nothing else in life since he was 17, he did not trust military men. He himself had skilfully ridden the divisions in the army to seize power from a civilian president in 1954. His policy was to keep the officers sweet with a cut from the smuggling revenues or a share of the contracts for his grandest project, the Itaipu hydroelectric plant built with Brazil on the Paraná. Some cronies amassed fortunes. General Andrés Rodríguez, who eventually overthrew him in what he contemptuously called a *cuartelazo*, or barracks revolt, built himself a replica of the Palace of Versailles.

As a firmer, more loyal base than these soldiers, General Stroessner used the Colorado (“Red”) party, a right-wing body that became steadily more so as its moderate politicians were ejected. Membership of the party was compulsory for all teachers, doctors, engineers, officers or those who hoped for government service. In a population of 3.8m, 900,000 belonged to it, their party dues docked from their salaries. Every four years, in a conspicuous show of phoney democracy, General Stroessner stood as the Colorado candidate and was elected, sometimes—as his supporters joked—with more than 100% of the vote. He won eight straight elections, and the constitutional bar to three consecutive terms or more was quietly set aside.

There was some resistance. The Catholic church got restive, especially when the general ignored calls for land reform from the indigenous poor. The Americans, fed up at last with his wiliness and his human-rights abuses, began to part company with him in the late 1970s. Paraguayans as a whole, however, were much slower to be disillusioned. It was true that he treated the country as his fief, to the point of picking out teenage girls for himself when he presented school diplomas; but he paid for the girls, set them up in houses, and gave their relatives money. You could argue that the Itaipu project left Paraguay with only 2% of the energy and 15% of the contracts; but that 15% had given the country, for eight years in the 1970s, the highest rate of growth in Latin America. General Stroessner was a master-dispenser of illegal spoils. Yet the dark truth of his Paraguay was that he co-opted even his opponents into that system with him.

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Overview

Aug 24th 2006
From The Economist print edition

The **American housing market** cooled further, as existing home sales dropped by 4.1% in July, to the lowest level in 2½ years. The National Association of Realtors reported that the median house price was 0.9% higher than in July last year, marking the smallest year-on-year increase since May 1995. Inventories of homes reached 3.9m, a record, which would take over seven months to clear at July's pace of sales.

A weak housing market is dampening the spirits of **America's consumers**. Sentiment eroded faster than expected, according to the University of Michigan's August index of consumer confidence, which fell to 78.7 from 84.7 in July.

Confidence also dipped in **Germany**, where the ZEW economic-sentiment indicator, based on a survey of analysts and institutional investors, fell to –5.6, far below its historical average of 35. The Ifo index of business sentiment fell, too, but by less than expected, to 105.0 from 105.6.

Imports to the **euro area** have increased by 13% in the year to June, a sign of healthy consumption; exports have risen by 8%. Nonetheless, the euro area's merchandise trade balance swung from deficit in May to a surplus of €2.0 billion ($2.5 billion) in June. Meanwhile, new industrial orders in the euro area declined by 2.5% in the same period.

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Output, demand and jobs

Aug 24th 2006
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2006	2007	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 3.1	Q1	+ 3.5	+ 3.2	+ 3.3	– 1.0	Q1	+ 3.6	Q2	4.8	Jul	5.0
Austria	+ 3.0	Q2	+ 4.0	+ 2.3	+ 2.0	+ 6.2	May	+ 0.9	Jun	4.8	Jul	5.2
Belgium	+ 2.8	Q2	+ 3.2	+ 2.4	+ 2.0	+ 1.9	Jun	+ 2.6	May	12.0	Jun†	12.3
Britain	+ 2.6	Q2	+ 3.4	+ 2.4	+ 2.5	– 0.7	Jun	+ 4.0	Jul	5.5	Jun‡	4.8
Canada	+ 3.2	Q1	+ 3.8	+ 3.2	+ 2.9	– 0.4	May	+ 6.4	May	6.4	Jul	6.8
Denmark	+ 3.5	Q1	+ 0.8	+ 2.7	+ 2.3	– 1.0	Jun	+ 3.6	Jun	4.5	Jun	5.8
France	+ 2.6	Q2	+ 4.7	+ 2.0	+ 2.0	+ 2.8	Jun	+ 1.5	Jun	9.0	Jun	10.0
Germany	+ 2.4	Q2	+ 3.6	+ 1.7	+ 1.3	+ 4.5	Jun	– 0.4	Jun	10.6	Jul§	11.8
Italy	+ 1.5	Q2	+ 1.9	+ 1.3	+ 1.1	+ 3.6	Jun	– 0.4	May	7.4	Q1	7.8
Japan	+ 2.0	Q2	+ 0.8	+ 3.0	+ 2.4	+ 5.0	Jun	– 0.6	Jun	4.2	Jun	4.2
Netherlands	+ 2.4	Q2	+ 4.0	+ 2.2	+ 2.1	+ 1.9	Jun	+ 8.8	May	5.4	Jul††	6.7
Spain	+ 3.6	Q2	+ 3.6	+ 3.3	+ 2.8	+ 5.4	Jun	+ 0.7	Jun	8.3	Jun	9.3
Sweden	+ 5.5	Q2	+ 5.6	+ 3.6	+ 2.9	+ 3.1	Jun	+ 7.4	Jun	6.0	Jul†	6.9
Switzerland	+ 3.5	Q1	+ 3.8	+ 2.8	+ 2.0	+ 9.2	Q1	+ 0.8	Jun	3.1	Jul†	3.5
United States	+ 3.5	Q2	+ 2.5	+ 3.4	+ 2.7	+ 4.9	Jul	+ 3.4	Jun	4.8	Jul	5.0
Euro area	+ 2.4	Q2	+ 3.6	+ 2.2	+ 1.8	+ 4.3	Jun	+ 1.5	Jun	7.8	Jun	8.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.8	Q1	+ 1.6	na	na	+22.3	Jun	+ 6.5	Jun	7.7	Jul	8.3
Greece	+ 4.1	Q2	na	na	na	+ 2.6	Jun	+ 6.9	May	9.7	Q1	10.4
Iceland	+ 5.0	Q1	na	na	na	na		na		1.3	Jun†	2.1
Ireland	+ 5.8	Q1	+ 4.4	na	na	+ 3.6	Jun	+ 4.4	May	4.4	Jul	4.3
Luxembourg	+ 7.3	Q1	na	na	na	– 1.4	May	– 4.7	Jun	4.0	Jun	3.9
New Zealand	+ 2.1	Q1	+ 2.3	na	na	– 0.7	Q1	+ 0.9	Q2	3.6	Q2	3.7
Norway	+ 5.4	Q1	+ 2.3	na	na	+ 1.7	Jun	+ 4.6	Jun	3.5	Jun**	4.7
Portugal	+ 1.0	Q1	+ 1.8	na	na	+ 1.7	Jun	– 4.9	Jun	7.7	Q1†	7.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Apr-Jun; claimant count rate 3.0% in Jul.
§EU harmonised rate 8.2% in Jun. ††May-Jul. **Apr-Jun.

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Prices and wages

Aug 24th 2006
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2006	2007	latest		year ago	latest		year ago
Australia	+ 4.0	Q2	+ 2.5	+ 3.0	+ 2.8	+ 9.9	Q2	+ 6.9	+ 4.7	Q2	+ 5.8
Austria	+ 1.5	Jul	+ 2.3	+ 2.0	+ 1.8	+ 3.9	Jul	+ 1.1	+ 2.7	Jul	+ 2.3
Belgium	+ 1.6	Jul	+ 3.1	+ 2.2	+ 1.9	+ 6.1	Jun	+ 2.4	+ 2.3	Apr	+ 2.6
Britain	+ 2.4	Jul*	+ 2.3	+ 2.1	+ 1.9	+ 2.8	Jul	+ 3.1	+ 4.3	Jun†	+ 4.1
Canada	+ 2.4	Jul	+ 2.0	+ 2.3	+ 2.1	+ 2.2	Jun	+ 0.1	+ 0.3	May	+ 1.0
Denmark	+ 2.0	Jul	+ 2.0	+ 2.0	+ 2.0	+ 4.6	Jul	+ 4.7	+ 2.9	Q1	+ 3.1
France	+ 1.9	Jul	+ 1.7	+ 1.9	+ 1.6	+ 3.9	Jun	+ 2.9	+ 3.1	Q2	+ 3.0
Germany	+ 1.9	Jul	+ 2.0	+ 1.9	+ 2.3	+ 4.6	Jul	+ 2.5	+ 1.0	Jun	+ 0.9
Italy	+ 2.2	Jul	+ 2.1	+ 2.2	+ 2.0	+ 6.2	Jun	+ 3.7	+ 2.9	Jun	+ 3.0
Japan	+ 1.0	Jun	– 0.5	+ 0.5	+ 0.6	+ 3.4	Jul	+ 1.6	+ 1.1	Jun	+ 0.5
Netherlands	+ 1.3	Jul	+ 1.6	+ 1.5	+ 1.5	+ 5.8	Jun	+ 5.0	+ 1.9	Jul	+ 0.7
Spain	+ 4.0	Jul	+ 3.3	+ 3.7	+ 3.0	+ 6.3	Jun	+ 4.4	+ 3.0	Q1	+ 2.5
Sweden	+ 1.7	Jul	+ 0.3	+ 1.4	+ 1.8	+ 3.7	Jul	+ 3.7	+ 3.2	May	+ 1.6
Switzerland	+ 1.4	Jul	+ 1.2	+ 1.3	+ 1.3	+ 2.9	Jul	+ 1.1	+ 1.0	2005	+ 0.9
United States	+ 4.1	Jul	+ 3.2	+ 3.5	+ 2.6	+ 4.2	Jul	+ 4.7	+ 3.8	Jul	+ 2.9
Euro area	+ 2.4	Jul	+ 2.2	+ 2.2	+ 2.1	+ 5.8	Jun	+ 4.0	+ 2.2	Q1	+ 3.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.9	Jul	+ 1.0	na	na	+ 6.0	Jul	+ 4.0	+ 2.9	Q2	+ 3.7
Greece	+ 3.8	Jul	+ 3.9	na	na	+ 7.2	Jun	+ 5.0	na		na
Iceland	+ 8.6	Aug	+ 3.7	na	na	+11.5	Aug	+ 4.3	+10.2	Jul	+ 6.6
Ireland	+ 4.2	Jul	+ 2.4	na	na	– 0.4	Jun	– 0.3	+ 2.2	Q1	+ 6.4
Luxembourg	+ 2.9	Jul	+ 2.6	na	na	+ 7.3	Jun	+ 6.4	+ 2.7	May	+ 2.0
New Zealand	+ 4.0	Q2	+ 2.8	na	na	+ 7.8	Q2	+ 4.7	+ 3.3	Q2	+ 2.6
Norway	+ 2.2	Jul	+ 1.4	na	na	+13.7	Jul	+19.3	+ 3.6	Q1	+ 4.2
Portugal	+ 2.3	Jul	+ 2.2	na	na	+ 4.8	Jul	+ 4.1	+ 1.0	Jun	– 0.5

*RPI inflation rate 3.3% in Jul. †Apr-Jun.

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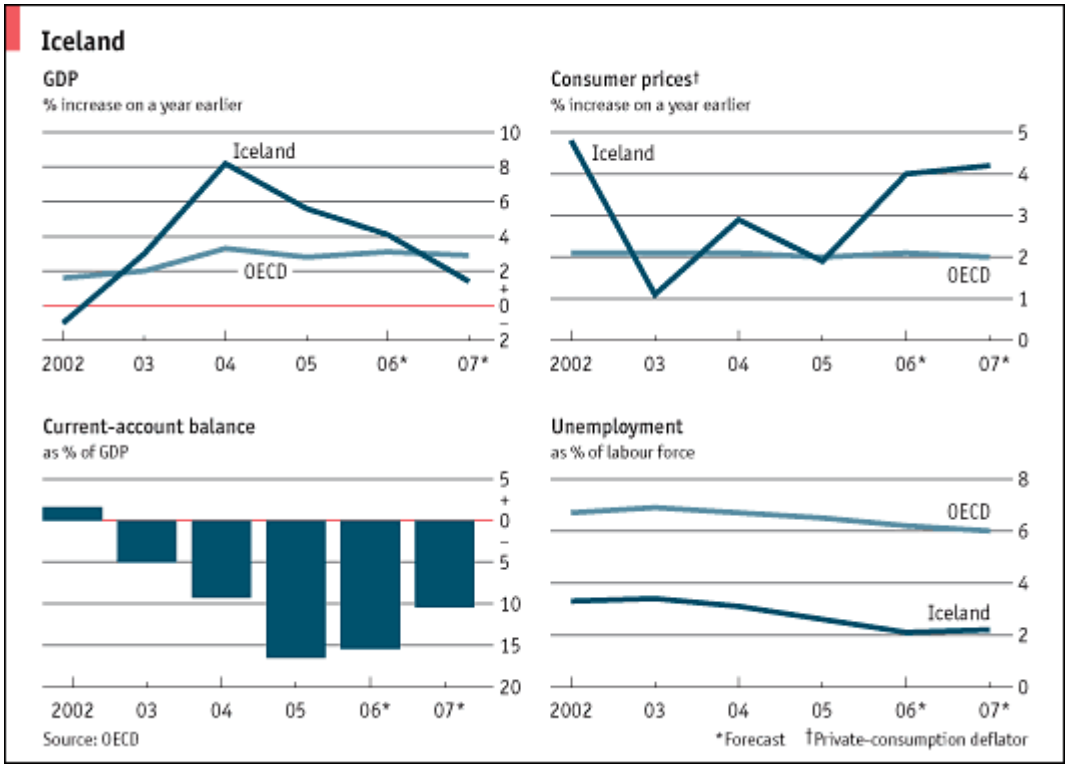
Iceland

Aug 24th 2006
From The Economist print edition



The economy seems to have weathered Iceland's currency meltdown earlier this year, but some fundamental problems persist, according to the OECD's latest survey of the country. Above-target inflation, debt and poor planning put its prosperity at risk. Iceland's GDP has grown by 4% a year during the past decade, but in 2005 its current-account deficit reached 16.5% of GDP, the highest in the OECD. The “land of fire and ice” has taken steps to put its fiscal igloo in order. It also recently raised interest rates to 13.5% in an effort to establish its credibility in the fight against inflation, which is at 8.6%, far above the central bank's target of 2.5%. The OECD's survey urges Iceland to embrace further fiscal restraint, continued financial liberalisation and the removal of distortions in the housing market. It also thinks that education in rural areas could be improved.

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Money and interest rates

Aug 24th 2006
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Aug 23rd 2006)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+10.2	+ 9.6	Jun	6.19	5.61	5.88	5.71	5.13	6.87
Britain	+ 5.4	+13.1	Jul	4.92	4.56	4.84	4.54	4.23	5.62
Canada	+12.3	+ 6.4	Jun	4.10	2.76	4.07	4.20	3.88	5.48
Denmark	+13.2	+10.0	Jun	3.20	2.20	3.60	3.82	3.13	5.15
Japan	+ 3.2	+ 0.5	Jul	0.34	0.02	0.75	1.82	1.42	1.98
Sweden	+ 0.2	+10.5	Jun	2.40	1.48	3.30	3.72	3.05	3.85
Switzerland	- 1.3	+ 0.8	Jul	1.65	0.76	1.99	2.52	1.92	2.61
United States	+ 0.2	+ 4.9	Jul	5.28	3.65	4.87	4.83	4.20	5.79
Euro area†	+ 9.3	+ 8.5	Jun	3.25	2.13	3.51	3.78	3.14	4.39

*Narrow: M1 except Britain notes and coin and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.97%, Japan No. 280 1.80%. Central bank rates: US fed funds 5.25%, ECB refinancing 3.00%, BOJ overnight call 0.25%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Lehman Brothers, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Aug 24th 2006
From The Economist print edition

2000=100

	Aug 8th*	Aug 15th*	Aug 22nd†	% change on one month	% change on one year
Dollar index					
All items	175.8	172.9	173.3	– 0.1	+30.6
Food	136.5	134.5	133.3	– 2.6	+ 8.2
Industrials					
All	226.2	222.5	224.9	+ 1.8	+55.3
Nfa‡	153.4	150.8	150.3	– 2.5	+17.7
Metals	265.6	261.7	265.6	+ 3.2	+72.4
Sterling index					
All items	139.8	138.3	139.1	– 2.3	+24.4
Euro index					
All items	126.6	125.0	125.0	– 1.6	+24.4
Yen index					
All items	187.7	186.1	187.2	– 0.5	+38.7
Gold					
$ per oz	644.57	621.80	622.28	+ 1.9	+41.7
West Texas Intermediate					
$ per barrel	76.42	73.02	72.57	– 1.6	+11.0

*Corrected. †Provisional. ‡Non-food agriculturals.

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Stockmarkets

Aug 24th 2006
From The Economist print edition

Market indices

	Aug 23rd	2006 high	2006 low	% change on one week	% change on record high	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
Australia (All Ordinaries)	5,048.0	5,318.2	4,708.8	+ 2.4	- 7.3	+ 4.7	+ 8.8
Austria (ATX)	3,710.4	4,344.4	3,324.1	- 1.8	- 13.0	+ 3.0	+11.8
Belgium (Bel 20)	3,872.6	3,987.3	3,445.1	- 0.9	- 2.0	+10.1	+19.4
Britain (FTSE 100)	5,860.0	6,132.7	5,506.8	- 0.6	- 14.9	+ 4.9	+15.8
Canada (Toronto Composite)	12,195.1	12,487.3	10,904.3	+ 1.4	- 3.7	+ 6.7	+12.6
Denmark (OMXCB)	361.9	395.5	325.0	- 0.1	- 8.4	- 1.5	+ 6.8
France (SBF 250)	3,571.6	3,755.6	3,244.2	- 0.8	- 18.0	+ 9.1	+18.3
France (CAC 40)	5,082.7	5,312.2	4,615.4	- 1.1	- 25.8	+ 9.0	+18.2
Germany (DAX)*	5,775.5	6,140.7	5,292.1	- 0.6	- 27.9	+ 7.5	+16.6
Italy (S&P/MIB)	37,283.0	38,765.0	34,850.0	- 0.1	- 25.5	+ 4.6	+13.4
Japan (Nikkei 225)	16,163.0	17,563.4	14,218.6	+ 0.6	- 58.7	- 0.2	+ 1.0
Japan (Topix)	1,640.3	1,783.7	1,458.3	+ 0.6	- 43.5	- 1.2	+ 0.1
Netherlands (AEX)	461.1	478.0	412.9	- 0.4	- 34.0	+ 6.0	+15.0
Spain (Madrid SE)	1,304.5	1,318.5	1,156.8	- 0.2	- 0.8	+13.1	+22.7
Sweden (Affarsvarlden Gen)	304.2	333.7	275.2	+ 0.7	- 24.5	+ 3.0	+14.1
Switzerland (Swiss Market)	8,078.7	8,122.1	7,154.9	- 0.1	- 3.8	+ 6.7	+13.9
United States (DJIA)	11,297.9	11,642.7	10,667.4	- 0.3	- 3.4	+ 5.7	+ 5.7
United States (S&P 500)	1,293.0	1,325.8	1,223.7	- 0.2	- 15.2	+ 3.8	+ 3.8
United States (NASDAQ Comp)	2,134.7	2,370.9	2,020.4	- 0.7	- 57.4	- 2.5	- 2.5
Europe (FTSEurofirst 300)†	1,353.3	1,405.6	1,238.7	- 0.5	- 20.3	+ 6.6	+15.6
Euro area (FTSE Euro 100)†	1,153.4	1,198.7	1,050.0	- 0.8	- 25.0	+ 6.7	+15.8
World (MSCI)‡	1,348.5	1,406.3	1,243.9	- 0.2	- 6.7	+ 7.5	+ 7.5
World bond market (Citigroup)††	645.8	648.5	612.1	+ 0.1	- 3.2	+ 4.0	+ 4.0

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Aug 24th 2006
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		Current-account balance The Economist poll % of GDP, forecast 2006	Current-account balance The Economist poll % of GDP, forecast 2007	Exchange rate trade-weighted† 2000=100 Aug 23rd	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Aug 23rd	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2006‡
Australia	− 11.9	Jun	− 40.6	Q1	− 5.7	− 5.4	118.4	116.3	1.31	1.32	2.48	1.68	1.13	+ 0.9
Austria	− 1.3	May	+ 6.4	Q1	+ 0.4	+ 0.5	105.6§	104.6	0.78	0.82	1.48	–	0.67	− 1.9
Belgium	+ 14.9	Jun	+ 7.3	Mar	+ 1.5	+ 1.6	107.4§	106.1	0.78	0.82	1.48	–	0.67	− 0.4
Britain	−132.1	Jun	− 52.3	Q1	− 2.8	− 2.9	101.9	99.4	0.53	0.56	–	0.68	0.45	− 3.4
Canada	+ 60.2	Jun	+ 31.8	Q1	+ 2.3	+ 1.6	130.1	120.7	1.11	1.20	2.10	1.42	0.95	+ 2.2
Denmark	+ 8.4	Jun	+ 5.5	Jun	+ 2.2	+ 1.9	106.4	105.8	5.83	6.09	11.0	7.46	5.00	+ 3.3
France	− 32.3	Jun	− 33.4	Jun	− 1.8	− 1.5	108.3§	106.8	0.78	0.82	1.48	–	0.67	− 2.9
Germany	+186.4	Jun	+106.2	Jun	+ 3.5	+ 3.5	109.9§	108.1	0.78	0.82	1.48	–	0.67	− 3.1
Italy	− 19.9	May	− 34.7	Jun	− 1.7	− 1.5	107.9§	106.5	0.78	0.82	1.48	–	0.67	− 4.2
Japan	+ 79.0	Jun	+164.6	Jun	+ 3.7	+ 3.6	80.2	86.4	117	110	221	149	–	− 5.2
Netherlands	+ 39.5	Jun	+ 46.2	Q2	+ 5.9	+ 5.8	108.3§	106.8	0.78	0.82	1.48	–	0.67	− 0.5
Spain	−101.4	May	− 91.6	May	− 7.9	− 7.8	105.8§	104.8	0.78	0.82	1.48	–	0.67	+ 1.1
Sweden	+ 19.6	Jun	+ 23.2	Q1	+ 6.7	+ 6.0	98.6	96.2	7.18	7.62	13.6	9.19	6.16	+ 1.7
Switzerland	+ 7.7	Jul	+ 51.7	Q1	+12.7	+11.9	105.6	106.4	1.23	1.27	2.34	1.58	1.06	− 0.2
United States	−830.2	Jun	−808.5	Q1	− 6.7	− 6.8	83.1	85.0	–	–	1.89	1.28	0.86	− 3.6
Euro area	− 13.5	Jun	− 52.1	Jun	− 0.4	− 0.3	118.7	115.9	0.78	0.82	1.48	–	0.67	− 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 11.0	Jun	+ 11.0	Jun	na	na	109.0§	107.5	0.78	0.82	1.48	–	0.67	+ 2.2
Greece	− 37.7	May	− 25.0	Jun	na	na	104.8§	103.7	0.78	0.82	1.48	–	0.67	− 3.0
Iceland	− 1.9	Jun	− 3.1	Q1	na	na	87.4**	101.4	70.2	63.8	133	89.8	60.2	+ 2.0
Ireland	+ 38.1	Jun	− 5.6	Q1	na	na	113.7§	111.3	0.78	0.82	1.48	–	0.67	− 0.3
Luxembourg	− 5.0	May	+ 3.9	Q1	na	na	107.4§	106.1	0.78	0.82	1.48	–	0.67	− 1.7
New Zealand	− 4.6	Jul	− 10.1	Q1	na	na	125.0	136.4	1.56	1.43	2.95	2.00	1.34	+ 4.6
Norway	+ 59.0	Jul	+ 50.2	Q1	na	na	109.0	109.8	6.29	6.50	11.9	8.05	5.40	+ 18.5
Portugal	− 22.7	May	− 16.8	May	na	na	105.7**	106.0	0.78	0.82	1.48	–	0.67	− 5.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, June average. ‡OECD forecast. **IMF, April average.

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Exchange-rate forecasts

Aug 24th 2006
From The Economist print edition

Exchange-rate forecasts

Currency units per dollar

	August 23rd	3-month	12-month
Euro area*	1.28	1.32	1.34
Japan	116	112	106
Australia	1.32	1.27	1.28
Britain†	1.89	1.91	1.94
Canada	1.11	1.18	1.20
Denmark	5.83	5.65	5.55
Sweden	7.19	7.00	6.90
Switzerland	1.24	1.20	1.17
China	7.97	7.50	7.00
Singapore	1.57	1.53	1.52
South Korea	955	980	990
Brazil	2.14	2.20	2.40
Mexico	10.9	10.8	11.5
Poland	3.06	3.00	2.90
Russia	26.8	26.2	25.3
South Africa	7.11	6.75	6.90

Source: JPMorgan Chase *$ per € †$ per £

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Overview

Aug 24th 2006
From The Economist print edition

South Africa's GDP grew at an annual pace of 4.9% in the second quarter, or by 3.6% compared with the same quarter a year ago. This was faster than expected—and faster than the central bank, which fears inflation, might have hoped.

Taiwan's economy grew by 4.6% in the year to the second quarter. **Chile's** GDP grew by 4.5% over the same period.

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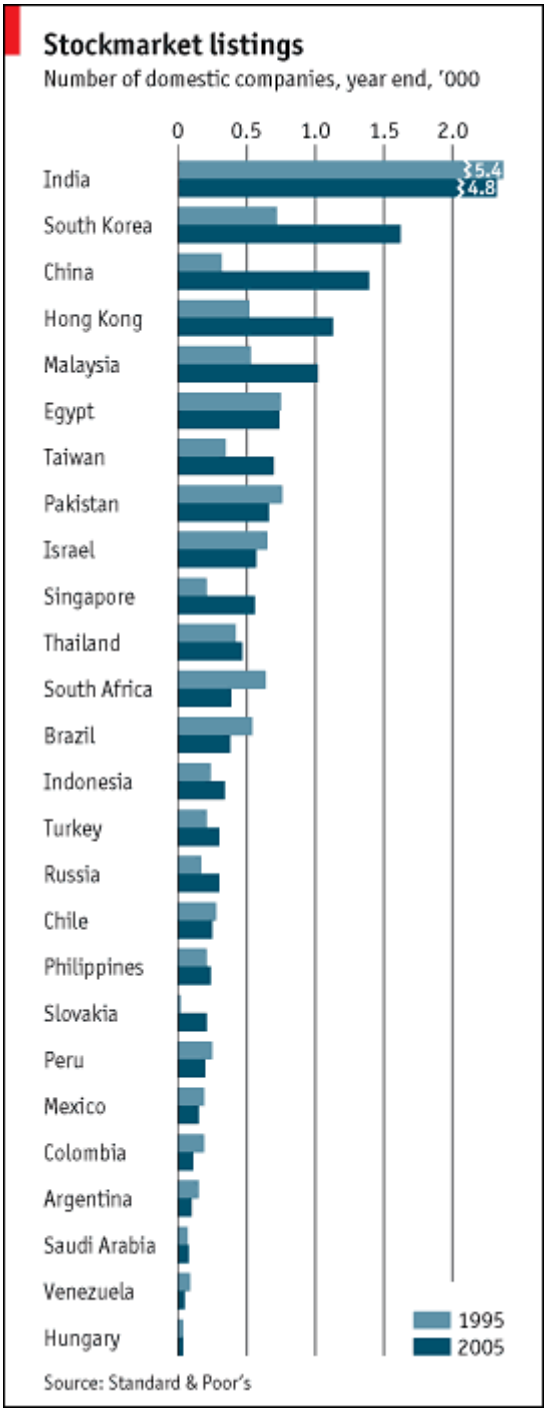
Stockmarket listings

Aug 24th 2006
From The Economist print edition

In the ten years between 1995 and 2005, stockmarkets in East Asia welcomed thousands of new listings from local companies. The number appearing on China's stockmarkets, for example, grew from 320 to 1,390. But other bourses in the emerging economies fared less well, perhaps because their firms chose to list overseas. South Africa's markets now list only 390 firms, compared with 640 in 1995.



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Economy

Aug 24th 2006
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+11.3	Q2	+16.7	Jul	+ 1.0	Jul	+127.0	Jul	+160.8	2005	941.1	Jun
Hong Kong	+ 5.2	Q2	+ 7.0	Q1	+ 2.3	Jul	−14.0	Jun	+20.8	Q1	127.4	Jul
India	+ 9.3	Q1	+ 9.6	Jun	+ 7.7	Jun	−41.3	Jul	−10.6	Q1	157.1	Jul
Indonesia	+ 5.2	Q2	− 1.6	May	+15.2	Jul	+33.5	Jun	+ 3.8	Q1	38.5	Jun
Malaysia	+ 5.3	Q1	+ 7.0	Jun	+ 4.1	Jul	+27.1	Jun	+19.5	Q1	78.5	Jun
Pakistan	+ 6.6	2006†	+11.6	Mar§	+ 7.6	Jul	−12.0	Jun	− 4.8	Q1	11.6	Jun
Philippines	+ 5.5	Q1	− 5.4	May	+ 6.4	Jul	− 3.9	May	+ 2.9	Mar	18.2	Jul
Singapore	+ 8.1	Q2	+22.5	Jun	+ 1.1	Jul	+33.0	Jul	+38.3	Q2	129.9	Jul
South Korea	+ 5.3	Q2	+10.9	Jun	+ 2.3	Jul	+17.0	Jul	+ 7.8	Jun	225.7	Jul
Taiwan	+ 4.6	Q2	+ 7.9	Jul	+ 0.8	Jul	+11.3	Jul	+20.6	Q2	260.4	Jul
Thailand	+ 6.0	Q1	+ 6.1	Jun	+ 4.4	Jul	− 2.4	Jun	+ 2.7	Jun	56.4	Jun
Argentina	+ 8.6	Q1	+ 8.8	Jul	+10.6	Jul	+11.5	Jul	+ 6.7	Q1	24.4	Jun
Brazil	+ 3.4	Q1	− 0.6	Jun	+ 4.0	Jul	+45.3	Jul	+12.5	Jul	66.1	Jul
Chile	+ 4.5	Q2	+ 2.3	Jun	+ 3.8	Jul	+17.0	Jul	+ 0.8	Q1	17.0	Jul
Colombia	+ 3.7	Q2	+10.0	Jun	+ 4.3	Jul	+ 1.1	May	− 2.0	Q1	14.6	Jul
Mexico	+ 4.7	Q2	+ 6.9	Jun	+ 3.1	Jul	− 4.1	Jul	− 1.2	Q1	84.9	Jun
Peru	+ 6.9	Jun	+11.7	Jun	+ 1.5	Jul	+ 6.3	Jun	+ 1.3	Q2	13.5	Jul
Venezuela	+ 9.2	Q2	+13.7	May	+13.5	Jul	+37.2	Q2	+29.5	Q2	23.8	Jun
Egypt	+ 5.9	Q1	+ 4.0	2005†	+ 8.4	Jul	−11.2	Q1	+ 2.1	Q1	21.1	Jul
Israel	+ 6.2	Q2	+12.3	Jun	+ 2.4	Jul	− 7.9	Jul	+ 4.4	Q1	27.9	Jul
Saudi Arabia	+ 6.6	2005‡	na		+ 2.2	May	+126.5	2005	+90.7	2005	24.0	Jun
South Africa	+ 3.6	Q2	+ 6.1	Jun	+ 4.9	Jun	− 6.9	Jun	−11.7	Q1	21.6	Jul
Czech Republic	+ 7.4	Q1	+10.5	Jun	+ 2.9	Jul	+ 1.6	Jun	− 3.4	Q1	30.4	Jul
Hungary	+ 3.6	Q2	+11.5	Jun	+ 3.0	Jul	− 3.3	Jun	− 7.9	Q1	20.7	Jul
Poland	+ 5.2	Q1	+14.3	Jul	+ 1.1	Jul	− 2.4	Jun	− 4.2	Jun	16.3	Jul
Russia	+ 5.5	Q1	+ 2.9	Jul	+ 9.6	Jul	+138.6	Jun	+91.4	Q2	257.9	Jul
Turkey	+ 6.4	Q1	+11.4	Jun	+11.7	Jul	−49.4	Jun	−28.7	Jun	56.8	Jun
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+11.7	Q1	+ 6.3	Jun	+ 4.5	Jul	− 2.7	May	− 1.8	May	2.1	Jun
Latvia	+13.5	Q1	+ 5.7	Jun	+ 7.0	Jul	− 3.6	Jun	− 2.3	May	3.2	Jun
Lithuania	+ 7.7	Q2	na		+ 4.4	Jul	− 4.1	Jun	− 2.1	May	4.1	Jun
Slovakia	+ 6.2	Q2	+12.1	Jun	+ 5.0	Jul	− 2.9	Jun	− 4.7	Apr	15.5	Jun
Slovenia	+ 5.1	Q1	+ 4.3	Jun	+ 2.0	Jul	− 1.8	Jun	− 0.3	Jun	8.6	May

*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate. §New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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Financial markets

Aug 24th 2006
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Aug 23rd		Dec 30th 2005	
	Aug 23rd	year ago	Aug 23rd	% a year		one week	in local currency	in $ terms
China	7.97	8.10	15.1	2.85	1,695.0	-0.3	+ 38.8	+ 40.6
Hong Kong	7.78	7.77	14.7	4.26	17,088.4	-2.1	+ 14.9	+ 14.5
India	46.5	43.7	88.1	6.38	11,406.7	-0.4	+ 21.4	+ 17.4
Indonesia	9,100	10,270	17,234	12.33	1,438.6	+0.1	+ 23.7	+ 33.8
Malaysia	3.68	3.77	6.96	3.85	948.3	+1.1	+ 5.4	+ 8.4
Pakistan	60.4	59.7	114	10.03	10,244.7	-3.1	+ 7.2	+ 6.2
Philippines	51.3	56.0	97.2	7.25	2,314.6	-1.2	+ 10.4	+ 14.2
Singapore	1.57	1.67	2.98	3.50	2,472.3	+0.8	+ 5.3	+ 11.4
South Korea	956	1,028	1,810	4.70	1,325.0	+0.7	- 3.9	+ 1.6
Taiwan	32.8	32.3	62.1	1.79	6,556.3	-2.1	+ 0.1	+ 0.3
Thailand	37.6	41.1	71.3	5.40	698.0	-2.0	- 2.2	+ 6.6
Argentina	3.09	2.91	5.85	10.19	1,648.8	+0.9	+ 6.8	+ 4.8
Brazil	2.13	2.42	4.04	14.69	35,512.0	-5.7	+ 6.1	+ 16.1
Chile	533	549	1,009	5.04	10,057.8	-0.2	+ 9.3	+ 5.0
Colombia	2,369	2,305	4,486	6.46	9,556.8	-0.4	+ 0.5	- 3.0
Mexico	10.8	10.9	20.5	7.03	20,742.4	-0.8	+ 16.5	+ 14.3
Peru	3.23	3.26	6.12	4.52	9,872.5	+3.3	+105.6	+118.1
Venezuela	2,659§	2,690§	5,035	10.19	35,076.1	-0.9	+ 72.0	+ 67.3
Egypt	5.74	5.77	10.88	8.82	51,078.1	+1.7	- 7.7	- 7.8
Israel	4.37	4.49	8.28	5.77	830.8	+0.9	+ 0.3	+ 5.7
Saudi Arabia	3.75	3.75	7.10	5.22	11,357.9	-1.9	- 32.0	- 32.0
South Africa	7.10	6.48	13.4	8.10	21,657.1	+2.7	+ 19.7	+ 6.9
Czech Republic	22.0	24.2	41.7	2.35	1,426.9	nil	- 3.1	+ 8.4
Hungary	216	200	409	7.36	22,115.7	+1.5	+ 6.4	+ 5.4
Poland	3.06	3.29	5.79	4.20	43,517.0	+0.3	+ 22.2	+ 30.3
Russia	26.8	28.5	50.7	11.50	1,647.7‡	-0.4	+ 36.3	+ 46.4
Turkey	1.47	1.37	2.77	19.34	37,121.8	-3.4	- 6.7	- 13.9
EM (MSCI)*	1.00	1.00	1.89	na	770.0	-1.3	+ 9.0	+ 9.0
EMBI+†	1.00	1.00	1.89	na	386.9	-0.2	+ 5.0	+ 5.0

*Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Trading market value.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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